Understanding Business 11th edition Nickels Test Bank

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Chapter 02

Understanding Economics and How It Affects Business

True / False Questions

1. America's business success is largely due to an economic and social climate that allows businesses to operate freely.

   True False

2. Global economics and politics have no significant influence on businesses in the United States.

   True False

3. The IMF has recently proposed a one-time global wealth tax to help bring the debt of nations closer to pre-recession levels.

   True False

4. The study of how society chooses to employ resources to produce goods and services and to distribute them for consumption among various competing groups and individuals is known as sociology.

   True False

5. Economists study how people use resources to produce and distribute goods and services for consumption among competing groups and individuals.

   True False

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6. Macroeconomics is the economic perspective that looks at the operation of a nation's economy as a whole.

True False

7. Microeconomics focuses on the decisions and behavior of people and organizations in particular markets.

True False

8. Resource development is concerned with finding the best way to utilize the fixed amount of resources a society has available.

True False

9. Resource development is the study of how to increase resources and to create the conditions that will make better use of those resources.

True False

10. Peace and prosperity will flourish if we can find the one best way to divide existing resources among nations.

True False

11. Thomas Malthus believed that overpopulation was a major cause of poverty.

True False

12. In developing nations of the world, population has leveled off and is not expected to increase dramatically in the future.

True False

13. Studies about the effects of population growth on the economy are part of macroeconomics.

True False

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14. Economic progress can occur when business owners provide jobs and economic growth for their employees, their communities, and themselves.

True False

15. Economist Adam Smith's important contribution was an inquiry as to why some nations are wealthy, while others remain poor.

True False

16. Adam Smith believed the self-interest of businesspeople would lead them to create needed goods, services, and jobs.

True False

17. The "invisible hand" in Adam Smith's theory turns self-directed gain into social and economic benefits for all.

True False

18. According to Adam Smith, the "invisible hand" refers to the government's effort to always keep a check on the wealth creation of individuals, so that no one business would control a market for a particular good or service.

True False

19. An economist is examining how consumers in the automobile market have responded to recent price increases by car manufacturers. He is examining a microeconomic situation.

True False

20. Macroeconomics looks at long-run economic problems while microeconomics examines short-run economic problems.

True False

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21. Thomas Malthus believed that people in most countries would never be able to achieve high standards of living unless the problems of overpopulation were addressed.

True False

22. Adam Smith believed that since businesspeople are motivated to improve their own prosperity, their actions are unlikely to benefit society as a whole.

True False

23. Adam Smith believed that an economic system couldn't truly prosper unless people were taught to value the welfare of others above their own personal gain.

True False

24. The concept of the invisible hand begins with the assumption that the primary motivation of entrepreneurs is that they will prosper from their own hard work.

True False

25. Adam Smith's research focused on determining the best way to distribute a fixed amount of resources, rather than on how to create more wealth.

True False

26. Large educated populations can contribute to an economy by offering knowledge and entrepreneurship.

True False

27. Adam Smith believed that incentives to seek personal gain would create wealth, but that the government must then step in to make sure that this wealth is equitably distributed.

True False

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28. As indicated by the **Making Ethical Decision**s box, activities that lead to corruption can destroy free economic opportunities because they interfere with the right to freely compete.

True False

29. In capitalist countries, the government decides what to produce and how the goods and services will be produced.

True False

30. Capitalism is the foundation of the U.S. economic system.

True False

31. State capitalism is the combination of free markets and government control.

True False

32. The most fundamental of all rights in capitalism is the right to private property.

True False

33. Under capitalism, the government prohibits people and businesses from competing with each other.

True False

34. A basic right under capitalism is the right of businesses to receive government funding.

True False

35. Free-market capitalism has made it more difficult for individuals to gain wealth.

True False

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36. Due to the fundamental rights afforded to us by a free-market capitalistic system, people are more willing to take calculated risks.

True False

37. A free-market economic system is one in which the market of buyers and sellers decides what is produced, how much is produced, and how it is distributed.

True False

38. Under the basic principle of supply, as the price goes down, manufacturers and suppliers of a product tend to supply less of the product to the market.

True False

39. Demand refers to the quantity of a good that consumers are willing and able to buy at different prices at a specific time.

True False

40. At the equilibrium price, the quantity consumers desire to buy equals the quantity sellers desire to sell.

True False

41. If the quantity supplied in a market exceeds the quantity demanded, a shortage will exist.

True False

42. If a shortage exists in a market for a good, the price of that good will tend to fall.

True False

43. The point of intersection between the supply and demand curves is called the stress point.

True False

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44. In the long run, the market price tends to adjust toward the equilibrium point.

True False

45. Countries that rely on a free-market system are plagued by persistent shortages or surpluses of goods and services.

True False

46. One of the drawbacks of free markets is the fact that competition in such markets undermines the ability of price to adjust to its equilibrium value in the long run.

True False

47. In perfect competition, each firm produces a product that is clearly differentiated from the products of other firms in the same market.

True False

48. A monopoly occurs when there is a single seller for a product or service.

True False

49. Economists refer to a market in which a few sellers dominate the supply side as monopolistic competition.

True False

50. Product differentiation is a key to success in monopolistic competition.

True False

51. In the United States, laws prohibit the creation of most types of monopolies.

True False

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52. One strength of a free-market economic system is that it emphasizes the fair and humane treatment of the less fortunate in society.

True False

53. The greed of businesspeople represents one of the greatest dangers to the operation of a free-market system.

True False

54. Fatima resides in a country where the economic system is primarily based on free-market capitalism. Fatima is likely to have the freedom to buy and sell property.

True False

55. A surplus currently exists for a product called widgets. In a free-market system, the government must step in and buy any widgets that consumers do not buy in order to eliminate the surplus and establish equilibrium.

True False

56. In a free-market economic system, the lack of government control and regulation means that businesses find it easy to take advantage of customers by offering poor quality products at high prices.

True False

57. History shows that free-market capitalism leads to a fair and equitable distribution of wealth.

True False

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58. Sarah owns a bakery that specializes in cupcakes. Until recently, she charged a price of $5 for each treat. At this price Sarah's customers bought an average of 384 cupcakes each week. For the last few weeks, she has reduced her price to $3.95 per cake, and her customers have purchased an average of 596 cupcakes each week. These results are consistent with the economic concept of demand.

True False

59. Monica notices that just a few big companies produce the vast majority of soft drinks. She would be correct in describing the soft drink industry as an oligopoly.

True False

60. Glamour Gal, a popular women's cosmetics company is gaining popularity among younger women. Differentiating itself from the sea of companies that compete for the same business, it focuses on products for sensitive, youthful skin. Glamour Gal clearly operates in an oligopolistic environment.

True False

61. Glamour Gal is a popular cosmetics company. Although it is gaining in popularity among younger women, its promotional strategy continues to focus on the shadow-free finish that it produces on almost any skin type. Due to the fact that its industry faces monopolistic competition, the company knows that it must continue to differentiate itself from the competition.

True False

62. As you drive to school in the morning, you will probably flip through several radio stations before deciding to settle on one for the duration of the drive. For instance: you can listen to a "fair and balanced" talk show; an "intelligent talk" program; an interactive "call-in" talk show; a "self-improvement" talk show; and, even an "all sports" talk show. With so much *monopolistic competition* in radio programming, radio stations focus on offering you something just a little different.

True False

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63. Roundland is a nation with an economic system that closely approximates pure capitalism. While Roundland's economy is likely to generate a great deal of wealth, it may do a poor job of providing an acceptable level of income for the elderly or disabled.

True False

64. In the newspaper this morning, you read about the downfall of a multinational entertainment business, and a report that the company's CEO enjoyed a 9% increase in his salary during the same year that the company's profits were down 35%. As you read further, you learn that the company's board of directors approved undeserved salary increases. Clearly, this is an example of how inequality and greed can infiltrate the free-market economic system.

True False

65. As you scan the national news online, you read about the BXY Utility Company's latest problems. The story describes an expansive retaining wall that collapsed during a flood last week, spewing toxic coal ash, burying homes, and causing a few fatalities. An editorial claims that the company will not be held accountable to the same standards as the asbestos companies of a few years back that paid severe fines and even went out of business due to their lack of attention to environmental clean-up. You agree with the writer because you recently studied about the various competitive markets, and utility companies clearly fall under monopolistic competition.

True False

66. The PowerHouse Utility Company recently built a nuclear power plant in a southern state and started competing against BXY Utility Company that has served customers in that region for 65 years. Due to deregulation, consumers now have a choice among utility companies in this area. Although PowerHouse has made a sizeable capital investment, if it successfully grows market share, eventually prices for electricity may stabilize or fall.

True False

67. Socialists believe that the primary economic function of the government is to promote rapid economic growth.

True False

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68. In socialist economies, the government owns some, if not most, basic businesses such as telecommunications systems and utilities.

True False

69. The top tax rate on personal income in most socialist economies is usually lower than the top tax rate on personal income in capitalist economies.

True False

70. The major benefit of socialism is that it creates strong incentives to work hard and take the risks associated with starting and operating a business.

True False

71. Socialists believe that wealth should be more evenly distributed than what actually occurs in a free-market capitalistic system.

True False

72. Workers in socialist countries often get longer vacations and more social benefits than workers in free-market economies.

True False

73. Over the past decade, socialist economies have proven to be more successful at creating wealth and jobs than capitalist economies.

True False

74. One drawback of socialism is that it may result in a reduction in the individual's incentive to work hard.

True False

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75. Brain drain is the loss of the best and brightest people to other countries.

True False

76. High tax rates in socialist countries is a major reason these nations have experienced a brain drain.

True False

77. Incentive to own and operate businesses is high in nations whose governments are proponents of socialistic practices.

True False

78. One of the benefits of communism is that it allows individuals a great deal of freedom to make their own economic decisions.

True False

79. Communism is an economic and political system in which the state makes almost all economic decisions and owns almost all the major factors of production.

True False

80. Most communist countries today are suffering from severe economic problems.

True False

81. A major distinction between capitalism and socialism concerns the distribution of income.

True False

82. Countries that wish to avoid shortages and surpluses of goods should adopt a communist system.

True False

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83. Workers in nations who are strong proponents of communism work much harder and longer hours.

True False

84. In the small nation of Equalia, the government owns several of the key businesses and provides a wide range of social services. The government places a great deal of emphasis on eliminating large disparities in people's incomes. These features of Equalia's economy are consistent with a socialist economic system.

True False

85. Marina left her native land in Eastern Europe in order to become a nanny for a family in a western suburb of Chicago, Illinois. One of the benefits of her arrangement was that she could attend the community college near her family's residence. When she arrived at her new job, she experienced the differences from a predominately socialist nation and a capitalist nation. Marina noted that public transportation in northern Illinois was limited and expensive, making it difficult to get to school. For a negligible fee, the government in her native country provided public transportation for everyone. Marina's native country's economic system was more characteristic of socialism.

True False

86. Socialism and communism are both variations of a free-market economy.

True False

87. In command economies, the government plays a major role in deciding which goods are produced and who will get them.

True False

88. Governments that were predominantly capitalist are moving toward socialism, while governments that were predominantly socialist are moving toward capitalism.

True False

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89. Like most nations, the United States has a mixed economy.

True False

90. Most countries throughout the world can be classified as either purely capitalist or purely socialist.

True False

91. There is general agreement in the United States on the degree to which the government should be involved in the economy.

True False

92. Subtle differences such as the right to one's religious preference make the command economic system known as communism more like a mixed economy than a socialistic system.

True False

93. In the past, socialist nations have realized that some of the government-run businesses do not grow as quickly as businesses that operate for a profit.

True False

94. Although mixed economies tend to improve economic conditions, moral values prevent communist nations such as China and Vietnam from progressing in this direction. Overall, economic progress continues to be very slow in these nations.

True False

95. According to the *Reaching Beyond Our Borders* box, Africa has been one of the fastest-growing regions in the 21st century.

True False

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96. In a mixed economy, the government's goal is to grow the economy and maintain some measure of social equality.

True False

97. Sweetland is a nation that publicly supports a free-market economy with private ownership of businesses. Over time, the government of Sweetland has developed policies designed to help the needy and reduce the level of income inequality. It pays for these programs by levying relatively high taxes on businesses and workers. These arrangements suggest that the economy of Sweetland is trending toward pure capitalism.

True False

98. Deanne is a vocal critic of socialism. She likes to point out that in recent years the governments in many socialistic nations have cut back on government services and have reduced taxes. Deanne believes that this trend will ultimately result in all nations adopting pure capitalistic ideals. Recent evidence suggests that Deanne's views are essentially correct.

True False

99. Recently, Juanita Martinez, the Prime Minister of Vuvuzela, announced that she is standing behind the concept of state-owned utilities and public schools in her nation. Although not all industry is owned and managed by the government, her ideas would lead one to believe that she has a preference for socialism.

True False

100. Most nations recognize that private enterprise is detrimental to business growth and what is best for consumers. Recently, a nation had the opportunity to sell its government-owned telecommunication system to a private firm. Instead it realized that it would be better off if it raised taxes so that it could maintain the status quo.

True False

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101. We use indicators such as (1) the gross domestic product (GDP), (2) the interest rate, and (3) the price indexes to measure the health of our economy.

True False

102. The total value of a country's output of final goods and services in a given year is known as the gross domestic product (GDP).

True False

103. Any output produced by U.S. firms is included in the value of U.S. GDP, even if the output was produced in a foreign country.

True False

104. GDP figures do not include the value of illegal activities.

True False

105. To be classified as unemployed, a person must be at least 16 years old and trying to find a job within the past four weeks.

True False

106. Frictional unemployment occurs because the economy is experiencing a recession.

True False

107. Structural unemployment refers to unemployment caused by the restructuring of firms or by a mismatch between the skills or location of job seekers and the requirements or location of available jobs.

True False

108. Inflation refers to a general rise in the prices of goods and services over time.

True False

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109. Inflation refers to the persistent rise in the purchasing power of money.

True False

110. Disinflation refers to a situation in which prices continue to rise, but not at the rate they were rising previously.

True False

111. Deflation means prices are declining.

True False

112. The consumer price index (CPI) measures what is happening to prices at the wholesale level.

True False

113. The CPI measures the pace of inflation or deflation.

True False

114. The CPI is based on the prices of a carefully selected market basket of goods, all of which consumers can purchase at a supermarket.

True False

115. Some wages, tax brackets, interest rates, and government benefits are based on the CPI.

True False

116. Core inflation figures omit health care prices, but not energy prices.

True False

117. The producer price index measures what is happening to prices at the wholesale level.

True False

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118. Productivity of workers in the U.S. is helped by the use of better machinery.

True False

119. The higher the measurement of productivity, the higher the likely costs of production.

True False

120. An increase in productivity means that a worker is now able to produce more goods and services in the same amount of time.

True False

121. As productivity increases, the cost of producing goods and services is likely to fall.

True False

122. In the service sector of the economy, the influx of machinery such as computers increases output per worker, but does little to improve the quality of services.

True False

123. Current measures of productivity in the service sector provide an accurate measure of changes in the quality of output.

True False

124. An economy is said to be in a recession if GDP declines for two or more consecutive quarters.

True False

125. A depression is a severe recession that is often accompanied by deflation.

True False

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126. A prediction that GDP will increase significantly over the next six months is bad news for most businesspeople.

True False

127. Although changes in the CPI provide interesting insights into the overall performance of the economy, these changes have little practical impact on the lives of ordinary people.

True False

128. It is understandable that productivity is rising faster in the service sector because service businesses have newer technologies than the manufacturing sector and fewer laborers.

True False

129. A rising GDP, rising unemployment rate, and rising inflation rate signify a healthy economy.

True False

130. A problem with the CPI is that it measures the price changes of only food and clothing, while ignoring what happens to the prices of such important items as medical care and energy.

True False

131. Danny was laid off from his job five months ago. At first, he looked for a new job every day. During the past six weeks, however, Danny became depressed about his employment status and quit trying to find a job. According to the criteria used by the government, Danny is a civilian whose job status is included in computing the national unemployment rate.

True False

132. Larry and Moe are having an argument. Larry believes that over the past year, the economy is experiencing rapid inflation, while Moe says that the economy actually experienced disinflation during this period. The easiest way for Larry and Moe to settle their argument is to look at GDP figures for the past year.

True False

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133. Maureen is the office manager of a service company. She recently approved the installation of new computers and office equipment for all workers in her office. If Maureen's company is like most service companies, she will probably see a big jump in the productivity figures reported for workers in her office.

True False

134. The government of Velovia made progress in its efforts to bring rapid inflation under control. Although prices are still rising, the rate of increase has slowed considerably. This suggests that Velovia is experiencing disinflation.

True False

135. The nation of Desperia is reporting a significant decline in GDP for four consecutive years, with no relief in sight. With unemployment at record levels and businesses failing faster than at any time in the past century, Desperia is likely experiencing a depression.

True False

136. Yesterday, Casey received a cable company ad for bundled TV, telephone, and Internet service that cost appreciably more than what she is currently paying. At the same time, she received a notice from her utility company that summer rates would be increasing. Her schoolbooks are costing almost twice what they cost last year, and yesterday, gasoline cost her 30 cents more per gallon than it did last week. As she ponders the situation, she can't help but wonder how prices could be rising when so many people have lost their jobs and are cutting back on expenditures. She is certain that this situation characterizes her economics professor's description of *stagflation*.

True False

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137. Sam is a recent college graduate with a lot of *firsts*: First professional job, first new car, first apartment, and first time making all of his own financial decisions. As he works on his monthly budget, he can't help but wonder why he is barely making ends meet. Each month, it takes his entire paycheck to pay his rent, his car payment, and buy food. Last month, he told his parents, "I'm sure I had more money when I was a starving student!" You recently learned about key economic indicators in your business class. You inform Sam that his problems are caused by severe deflation and lack of demand for products and services.

True False

138. Robin just graduated from college and is seeking her first job. She received a degree in engineering at a prestigious university. Robin has several leads and has heard that the market for engineers is very strong, so she is convinced that she should locate a good job in the near future. Robin's current situation is an example of structural unemployment.

True False

139. Fiscal policy refers to the federal government's efforts to keep the economy stable by controlling the amount of money in circulation.

True False

140. Fiscal policy involves the federal government's efforts to stabilize the economy by increasing or decreasing taxes and/or government spending.

True False

141. When the government attempts to stabilize the economy by changing taxes or government expenditures, it is using fiscal policy.

True False

142. The national deficit is the difference between our nation's exports and its imports.

True False

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143. The size of the national debt increases when the federal government runs a deficit.

True False

144. The U.S. national debt equals the sum of all recorded years of deficits.

True False

145. The Federal Reserve Board is responsible for controlling the money supply.

True False

146. Monetary policy is directly under the control of the U.S. Department of the Treasury.

True False

147. One of the major ways the Fed influences economic conditions is through its control of interest rates.

True False

148. High tax rates that put money into the government's coffers tend to slow spending, and ultimately slow the economy.

True False

149. If the government wants to jump-start the economy resulting in more consumer spending, it will raise taxes.

True False

150. Monetary policy is implemented to ease the up and down swings of business cycles, while fiscal policy is implemented to create swings when the cycle is stalled in an economic boom.

True False

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151. If the national debt is $14 trillion, the national deficit will be considerably higher.

True False

152. Government spending on defense decreases the national deficit.

True False

153. To jump-start the economy, the Fed is likely to lower interest rates, in order to encourage individuals and businesses to spend money.

True False

154. The best way to avoid national budget deficits is to increase our exports and decrease our imports.

True False

155. In order to restrict spending by businesses and households, the Fed would take measures designed to lower interest rates.

True False

156. Senator Spendital made a speech deploring the continuous deficits in the federal budget. He is proposing an increase in tax rates to raise more revenue for the government and thus gradually reduce the size of the national debt over a period of several years. The strategy Senator Spendital is proposing is a common type of monetary policy.

True False

157. A professor of economics at a prominent university recently urged government policy makers to cut taxes and increase government spending in order to pull the economy out of its current downturn. The policy measures called for by the professor are examples of fiscal policy.

True False

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158. Joe and Tess McGreen are purchasing their first home in Durham, North Carolina. They are seeking pre-qualification on a home loan. The unemployment rate for North Carolina is 10.2% and GDP is declining. Chances are pretty good that the Fed will raise interest rates in order to loosen the supply of money, resulting in a more expensive loan for Joe and Tess.

True False

159. Katie owns a nail salon. She needs to update her shop with new customer massage chairs and work stations for her technicians. If the Fed were to lower interest rates by 1.5 percentage points, at the same time that the government increased the tax rate by 1.5%, she could immediately determine that updating her shop would not increase or decrease her financial position.

True False

160. The Fed is concerned that the economy is growing too rapidly. Given these concerns, it is likely to pursue policies to restrict the supply of money and raise interest rates.

True False

161. Nick wants to buy a new car, and is planning to borrow the money for his purchase from a bank. He read in the newspapers that the Federal Reserve is likely to implement policies in the next few weeks that are designed to stimulate the economy. Nick would probably get a lower interest rate on his car loan if he waits until after the Fed implements its new policies.

True False

Multiple Choice Questions

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162. Economics is the study of how a society _____.

A. invests wisely in the stock market
B. employs resources to produce goods and services and distribute them among competing groups and individuals
C. employs statistical techniques to make predictions about the evolution of society over the long run
D. governs itself for the good of its citizens

163. _____ is the study of how a society employs its limited resources to produce goods and services and how it distributes them among competing groups and individuals.

A. Economics
B. Capitalism
C. Marketing
D. Socialism

164. _____ studies the operation of a nation's economy as a whole.

A. Microeconomics
B. Socioeconomics
C. Econometrics
D. Macroeconomics

165. _____ looks at the behavior of individual people and organizations in specific markets.

A. Macroeconomics
B. Finite economics
C. Microeconomics
D. Nanoeconomics

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166. Resource development is:

A. the study of how society chooses to employ resources to produce goods and services and distribute them for consumption among various competing groups and individuals.
B. the study of how to increase the amount of available resources and create conditions that will make better use of these resources.
C. the part of economics that looks at the operation of a nation's economy as a whole.
D. the part of economics that looks at particular markets.

167. The study of how to increase the amount of available resources and create conditions that will make better use of these resources is known as:

A. human resource management
B. microeconomics
C. econology
D. resource development

168. Economist Thomas Malthus believed that _____ would limit economic progress.

A. depletion of gold reserves
B. overpopulation
C. the tendency of governments to levy high tax rates
D. the inability of workers in developed nations to compete against cheap foreign labor

169. Neo-Malthusians believe that the solution to poverty is:

A. increasing the world population.
B. increasing taxes on the rich and increasing social programs.
C. birth control.
D. educating poor people.

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170. A key to economic growth and development is to:

A. locate more deposits of gold and other precious metals.
B. emphasize a fair and equitable distribution of income.
C. provide people with better education.
D. allow government planning to guide the allocation of resources.

171. _____ is considered by some to be the father of modern economics.

A. John Maynard Keynes
B. Adam Smith
C. Thomas Carlyle
D. Thomas Malthus

172. Which of the following is an important premise of Smith's conclusions about economic prosperity?

A. Individual freedom is necessary if a society is to prosper.
B. Understanding the concept of survival of the fittest will lead to prosperity.
C. Determining what motivates people will lead to prosperity.
D. Command economies and structured markets must be in place before we can work toward prosperity.

173. Which of the following would be a topic emphasized in a macroeconomics course?

A. Factors that determine how fast a nation's economy is growing.
B. How a firm decides the amount it will charge for one of its products.
C. How a consumer chooses which goods to buy.
D. The determinants of the wage rate for labor in the auto industry.

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174. Which of the following would be a topic emphasized in a microeconomics class?

A. How a nation's GDP is computed.
B. The reasons why the unemployment rate for the economy is rising or falling.
C. How market conditions determine the price of a specific product.
D. How the government can use fiscal and monetary policies to stabilize the economy.

175. The main goal of resource development is to find ways to:

A. increase the amount of resources and create conditions that will make better use of those resources.
B. allocate existing resources more efficiently among competing uses.
C. find the right balance between policies that promote economic growth and policies designed to promote other goals such as a fair distribution of income.
D. promote the central planning of resource utilization so that resources can be allocated to the uses that will benefit society the most.

176. Thomas Malthus was pessimistic about the ability of a society to achieve high standards of living for most of its citizens because he believed that:

A. government has a natural tendency to run deficits that would eventually bankrupt a nation.
B. significant population growth would result in shortages of food and resources.
C. owners of businesses would deliberately exploit their employees in an attempt to earn greater profits, and this would ultimately lead to a worker's revolt.
D. high tax rates would eventually undermine people's incentives to work hard and create wealth.

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177. Economics was known as the "Dismal Science" because:

A. too many people would result in food shortages and shortages of other resources.
B. it was a very complex area of study based on mathematics.
C. the world population was growing slower than expected in the 1700s, leading economists to call it a dismal period of time.
D. there were too many old people and not enough young people to care for them.

178. How is it that people working in their own self-interest produce goods, services, and wealth for others?

A. By taking advantage of a vast supply of labor, people working in their own self-interest could hire others at very low wages.
B. In order to earn money and produce goods that improve lives, self-directed gain would provide jobs, and subsequently wages for others.
C. The government pays entrepreneurs in the U.S. to produce goods, services, and wealth for others.
D. Entrepreneurs tend to include themselves in a group of people who need charitable support. A portion of the entrepreneur's profit (as required by law) goes to the charity of one's choice to support the less fortunate.

179. Adam Smith believed that countries would prosper if businesspeople were free to start and run their own businesses. Businesspeople would make a profit by providing the goods, services and ideas that others in the economy wanted, and they would hire others to help increase those profits, leading to social and economics benefits for many. This idea was called the _____.

A. kinked demand theory
B. invisible hand
C. spending multiplier
D. demand accelerator

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180. Sue is a gifted cook. She plans to open a restaurant in which she will be the head chef. Sue is willing to work long hours because she believes that her culinary talents and hard work will allow her business to succeed and earn her sizeable profits. Sue's efforts are most consistent with the economic theory developed by:

A. Thomas Malthus.
B. Karl Marx.
C. Adam Smith.
D. David Ricardo.

181. Jake considers himself to be a follower of Thomas Malthus. Which of the following statements would Jake be most likely to make?

A. The key to economic growth is to keep taxes and government regulations to a minimum.
B. Command economies are more likely to encourage economic growth than free-market economies.
C. Allowing people to follow their self-interest is the best way to generate economic growth and prosperity.
D. A society will not experience sustainable economic progress unless it accepts the need to limit population growth.

182. Which of the following statements would a follower of Adam Smith most likely make?

A. The federal government should use its ability to spend and tax to guide the decisions of businesses and consumers.
B. Market economies are flawed because they put too much emphasis on economic growth and not enough on environmental problems.
C. Overpopulation is the main danger confronting modern economies.
D. If people are given the freedom to follow their own interests, theoretically their efforts will lead to economic growth that benefits society as a whole.

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183. Fourteen years ago, Sergio noticed that a lot of people who bought personal computers did not know much about how to use them and frequently suffered system crashes and other aggravations. He decided he could earn a nice profit by starting a consulting business to help other people overcome their computer woes. Although the business struggled at first, it has experienced a good deal of success for the past five years. Sergio has many satisfied customers, and the business has grown to the point where he now employs several workers. Sergio's experience is an example of:

A. socialism at work.
B. the principle of comparative advantage.
C. the invisible hand concept.
D. the multiplier principle.

184. For many years, Congressman Ricardo Perez has called for more government regulation of business. "After all," the Congressman said recently, "businesspeople are out to make a profit, not to create jobs or serve their customers. The government must pass more laws to require businesses to take the interests of consumers and workers into account." From these comments, it is clear that Congressman Perez:

A. agrees with the ideas of Thomas Malthus.
B. does not accept the "invisible hand" idea brought forth by Adam Smith.
C. is unaware of the fact that most businesses in the United States are owned by the government.
D. does not realize that government regulation is already the main determinant of business decisions in capitalist economies.

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185. In the boxed material "Making Ethical Decisions," the textbook describes corruption practices in developing nations. These practices include payoffs to government officials in order to get an edge on competing better in one's industry. Which of the following statements best describes the ethical message explained in this box?

A. Bribery is commonplace and necessary in socialistic nations.

B. Bribery is acceptable if everyone is doing it. As a businessperson, you have to find the right balance in whatever nation you want to sell your products.

C. Campaign contributions are not considered bribes, particularly if everyone in your industry is doing the same.

D. Ethics plays an important role in a capitalistic system and in the freedom to compete. Corruption can hinder economic growth.

186. According to the invisible hand concept, the best way for a society to encourage the creation of jobs and the production of the products most wanted by consumers would be to:

A. permit government-owned industries, such as telecommunications, transportation, and energy, and operate these firms as nonprofit organizations.

B. allow private ownership of businesses, but make use of extensive regulation to force businesses to behave in a socially desirable way.

C. allow entrepreneurs personal freedom to follow their own self-interest.

D. impose high taxes on individuals, and use the revenue to subsidize businesses to encourage them to produce the maximum rate of output.

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187. A young couple living in rural west-central Missouri heard about the closing of a local grocery store. Although a small operation, it served a small community that would now have to travel another 20 miles to the nearest grocery store. With help from a local realtor and banker, the couple purchased the store, remodeled it, and re-opened it. As new storeowners, they had to carefully watch cash flow. As their customer base began to grow, they began offering hot food, and hired others to help with the operation. The economic benefit created in this story is called:

A. an economic intervention.
B. an economic crisis control.
C. the invisible hand.
D. the deliberate process.

188. _____ is the name of a free-market economic system in which most of the factors of production and distribution—such as land, factories, railroads, and stores—are owned by individuals.

A. Socialism
B. Capitalism
C. Communism
D. Marginalism

189. Under capitalism:

A. most of the means of production and distribution are privately owned and operated for profit.
B. the primary function of the government is to distribute wealth more evenly.
C. utilities, health care, education, and other important services are operated by the government.
D. markets operate to carry out the decisions made by central planners.

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190. The foundation of the U.S. economic system is based on:

A. capitalism.
B. the ideas of Thomas Malthus.
C. equality.
D. the saying, "from each according to ability, to each according to need."

191. Which of the following is a basic right under capitalism?

A. Freedom of collusion.
B. Freedom from taxation.
C. The right to vote.
D. The right to compete.

192. The freedom of people to decide where they want to work and live and what they want to buy or sell are basic capitalist rights under:

A. eminent domain.
B. freedom of expression.
C. freedom of choice.
D. freedom of competition.

193. The freedom of people to buy, sell, and use land, buildings, machinery, and inventions are basic capitalist rights under:

A. the right to own private property.
B. freedom of expression.
C. freedom of choice.
D. freedom of competition.

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194. A free market is one in which decisions about what to produce and in what quantities are made by:

A. the Fed
B. the community
C. the market
D. the Congress

195. In a free-market economic system, the mechanism of _____ is the key determinant used to signal to producers what to produce and how much to produce.

A. the market curve
B. trend
C. price
D. quantity

196. The quantity of a good or service that producers are willing to sell at different prices during a specific time period is known as the:

A. supply of that product or service.
B. demand for that product or service.
C. elasticity of that product or service.
D. utility of that product or service.

197. A simple supply curve shows that an increase in the price of a good will cause the quantity supplied to:

A. decrease.
B. increase.
C. remain constant.
D. fluctuate randomly around its equilibrium value.

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198. A simple supply curve shows a relationship between the:

A. amount of labor a firm hires and the amount of output it can produce.
B. amount of time required to produce a good and the relevant production costs.
C. price of a good and the quantity of that good sellers are willing to offer for sale at a specific point in time.
D. amount of a good a firm produces and the amount demanded by consumers.

199. A(n) _____ curve shows the relationship between the price of a good and the quantity of that good people are willing and able to buy in a given time period.

A. demand
B. supply
C. utility
D. equilibrium

200. A typical demand curve shows that:

A. as people earn more income, they buy more of a good.
B. as supply increases, the amount purchased decreases.
C. people tend to buy more of a good than they really want.
D. people tend to buy more of a good when its price decreases.

201. When the supply curve and demand curve for a particular good are shown together on a single graph, the point at which the two curves intersect identifies the:

A. total profit earned by producers.
B. total amount of labor that will be employed in that market.
C. amount of time it takes to bring together the buyers and sellers of the good.
D. equilibrium price of the good.

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202.When prices are free to adjust over time, in the long run, the market price of a good tends to:

A. rise above the equilibrium price in the long run.
B. equal the equilibrium price.
C. fall below the equilibrium price in the long run.
D. have no specific relationship to the equilibrium price.

203.If a shortage exists for a good in a free-market economy, the:

A. price of the good will rise.
B. price of the good will fall.
C. government will order suppliers to increase the production of that good.
D. government must establish a rationing system to make sure that the good is fairly distributed.

204._____ is the market situation in which there are many sellers in a market and no seller is large enough to dictate the price of a product.

A. Oligopoly
B. Monopolistic competition
C. Perfect competition
D. Microeconomic competition

205._____ exists when a large number of firms produce goods that are similar but are perceived by buyers as being different.

A. Perfect competition
B. Monopolistic competition
C. Oligopoly
D. A monopoly

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206._____ exists when the entire supply of a good is controlled by a single seller.

A. Perfect competition
B. Oligopoly
C. Pure Capitalism
D. A monopoly

207.An oligopoly is a market that is characterized by:

A. one firm that totally dominates the supply of the product.
B. a large number of small firms all producing very similar products.
C. a few large sellers who dominate the market.
D. several small firms that compete primarily by differentiating their products.

208.Which of the following statements about capitalism is the most accurate?

A. In capitalist economies, most resources are owned by the government.
B. A strength of capitalism is its ability to deal with environmental problems.
C. Capitalism is characterized by unequal distribution of wealth and income.
D. A drawback of capitalism is that people have little freedom to pursue their own goals.

209.When the market price of a good is below the equilibrium price, and all other determinants are unchanged:

A. the quantity demanded will exceed the quantity supplied.
B. the supply curve will be to the right of the demand curve.
C. a surplus will exist in the market.
D. the government will regulate the price of the good to ensure equilibrium is attained.

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210. When the market price of a good is above its equilibrium value, and all other determinants are unchanged:

A. a shortage will exist in the market.
B. the quantity demanded will exceed the quantity supplied.
C. both the supply curve and the demand curve will shift to the right.
D. a surplus will exist in the market.

211. The markets for laundry detergents, soft drinks, and automobiles are dominated by just a few sellers. Economists would classify these markets as examples of:

A. monopolistic competition.
B. perfect competition.
C. oligopolies.
D. monopolies.

212. In most large cities there are a large number of bakeries. These bakeries produce similar, but not identical, products. Some bakeries claim to have the best cheesecakes in town, while others brag about their cookies or specialty breads. The bakery market in a large city is an example of:

A. monopolistic competition.
B. perfect competition.
C. an oligopoly.
D. a monopoly.

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213. The presence of competition in free markets:

A. is undesirable because it results in unnecessary duplication of efforts.
B. usually results in better quality and lower prices.
C. is rare, since most markets eventually evolve into monopolies.
D. is undesirable, because one big firm can usually produce goods more efficiently than a large number of small firms.

214. One of the benefits of a free market is that:

A. businesses provide customers with quality products at fair prices.
B. businesses all make the same amount of profit.
C. businesses do better with more government regulation.
D. the government dictates the number of competitors there are in each industry.

215. One of the greatest concerns associated with capitalism is that:

A. it is not very successful at creating wealth.
B. some businesspeople may let greed guide their behavior.
C. the amount of economic freedom enjoyed by consumers is very limited.
D. producers are unlikely to supply the goods and services that consumers value the most.

216. According to the box, *Spotlight on Small Business*, when Florida's orange crop was significantly affected by a dry spell and gnat swarms:

A. the price of oranges rose as much as 16% throughout 2014.
B. the price of oranges fell as much as 16% throughout 2014.
C. the trees supplied more fruit than previous years and there was an orange juice surplus.
D. no changes in the sale of oranges and orange juice occurred.

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217. Patrick lives in a nation whose government embraces capitalism. He owns his own home and car, as well as his own business and building. Patrick maintains ownership due to:

A. eminent domain.
B. the Freedom of choice.
C. the right to own private property.
D. the freedom of competition.

218. The market price of apples is currently rising. In a free-market economy, the most likely explanation of this price change is that:

A. the government has decided to set a higher price so that firms competing in the market make an adequate profit.
B. there is a shortage in the market for apples.
C. the supply of money has decreased.
D. the equilibrium price is lower than the market price.

219. A rare and scarce earth metal known as Neodymium is used in many consumer and military products including smartphones, smart bombs, laptop computer monitors, and electric/hybrid cars. In one year's time, the price of Neodymium has gone from $19/lb. to $129/lb. Under these circumstances and the fact that at least 1 kilogram is used in each electric car that is assembled, a graph of the supply and demand for this product would show:

A. the current price of Neodymium to be below the equilibrium price for this rare earth metal.
B. the price of Neodymium to be above the equilibrium price for this rare earth metal.
C. the price of Neodymium to reflect the adjustment of quantity demanded and quantity supplied.
D. consumer demand for a product such as electric cars to shift to the right indicating the desire to purchase the rare earth metal at any price.

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220. The price of iPhones™ is falling. In a free-market economic system where everything else is equal, the most likely explanation is:

A. suppliers are not producing enough product.
B. sellers cannot keep up with market demand.
C. the government determined that the product was not worth the price tag that the producer was asking.
D. the product has competition at the equilibrium price.

221. Reality Entertainment, Inc., is a major producer of reality TV programming. The company faces fierce competition from three other major producers of similar shows. Together, Reality Entertainment and its three rivals control almost the entire reality TV programming. Their market environment is called:

A. an oligopoly.
B. a duopoly.
C. monopolistic competition.
D. a quasi-monopoly.

222. On its website, Papa John's Pizza compares itself to the competition with the following message: "better ingredients, better pizza." The company wants to achieve:

A. product differentiation.
B. an equilibrium price.
C. a monopoly.
D. a perfectly competitive market.

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223.Which of the following statements most accurately identifies a limitation of the free-market economic system?

A. Free-market economies offer little opportunity for the poor to work their way out of poverty.
B. Free-market economies have been unable to create wealth as rapidly as other types of economic systems.
C. Free-market economies are generally plagued by shortages of needed consumer goods.
D. Free-market economies tend to result in unequal distribution of wealth.

224.A major premise of a socialist system is:

A. to make sure that those that create wealth are allowed to keep that wealth.
B. to reduce the inequality in the distribution of wealth.
C. to create incentives to encourage entrepreneurs to create jobs and economic growth.
D. to keep tax rates extremely low so that businesses do not need to support government projects.

225.A major benefit of socialism is the:

A. ability to stimulate rapid economic growth.
B. ability to keep taxes low.
C. emphasis on social equality.
D. emphasis on private enterprise instead of public ownership.

226.Under the _____ system there is very little incentive to work hard or to produce quality goods or services.

A. capitalist
B. socialist
C. communist
D. mixed economy

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227.Under the _____ system the number of choices in the market is directly related to government involvement in markets.

A. capitalist
B. socialist
C. communist
D. mixed economy

228.There are some restrictions on freedom of assembly and freedom of speech under a _____ system.

A. capitalist
B. socialist
C. mixed economy
D. communist

229.Brain drain has occurred in many socialistic nations because:

A. socialism encourages an unequal distribution of income, leaving many without medical and social services.
B. the government does little to protect the natural environment.
C. workers tend to have to work longer hours and receive fewer benefits under socialism.
D. tax rates on well-respected professionals such as doctors tend to be very high.

230.Communism is an economic system in which:

A. the government and private citizens own equal shares of the economic resources.
B. almost all of the productive resources are owned by private businesses.
C. the government makes almost all of the major economic decisions.
D. individual consumers make all economic decisions.

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231. In recent years, countries with communist economic and political systems have:

A. enjoyed periods of great prosperity.
B. experienced severe economic depression.
C. placed even more importance on individual ownership of businesses.
D. grown very slowly, but have avoided the severe problems that have plagued some capitalist economies in Asia and Europe.

232. The economic and political system in which the government owns almost all the major factors of production is called:

A. communism.
B. capitalism.
C. ethnocentrism.
D. socialism.

233. Communist values are disappearing because:

A. people in communist nations are tired of the strong religious teachings of the system.
B. communist businesses have grown too quickly and they cannot keep up with demand.
C. communist leaders are all militaristic.
D. shortages abound due to the fact that the government cannot rely on good information.

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234.Which of the following statements provides the most accurate comparison of socialism and communism?

A. Under socialism, the government owns most businesses, while under communism the church owns most businesses.
B. Both socialism and communism want to achieve a more equal distribution of income and wealth, but under communism, the government takes more control over people's lives.
C. Socialism strives for an equal distribution of income but communism wants income to go primarily to those who own and operate private businesses.
D. Communism believes that the government should always strive to balance its budget, while socialism accepts deficit spending as the price of achieving true equality.

235.Which of the following people would tend to favor a socialist economy?

A. John wants to live in a country with low marginal tax rates.
B. Robin wants to live in a country that encourages rapid economic growth.
C. Liz wants to live in a country with limited government regulation.
D. Fred prefers to live in a country that promotes social equality.

236.Which of the following people would tend to favor a communist economy?

A. John wants to live in a country with low marginal tax rates.
B. Robin wants to live in a country that encourages rapid economic growth.
C. Liz wants to live in a country where the government makes almost all of the economic decisions.
D. Fred prefers to live in a country with limited government regulation.

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237.One of the most significant problems faced by communist nations is:

A. inequality in the distribution of wealth and income.

B. severe inflationary pressures due to rapid economic growth.

C. too little government regulation of economic activity.

D. persistent shortages of basic goods such as food and clothing.

238.Abby left her native land in Eastern Europe to become a nanny for a family in a western suburb of Chicago, Illinois. One of the benefits of her arrangement was that she could attend the community college near her family's residence. When she arrived at her new job, she experienced some immediate differences. Abby noted that public transportation in northern Illinois was limited and expensive, making it difficult to get to school. For a negligible fee, the government in her native country provided public transportation to everyone. The economic system in Abby's native country was more characteristic of _____.

A. pure capitalism

B. socialism

C. mercantilism

D. communism

239.Jorge Martinez is a well-educated entrepreneur who operated a small business in his home country of Fiorentina. At the encouragement of his American relatives, Jorge recently immigrated to the United States and applied for U.S. citizenship. "In Fiorentina, tax rates were very high," Jorge complained. "The government used the taxes I paid to finance all sorts of social programs to help the less fortunate. While this is a noble goal, it has really undermined the profit incentive of individuals such as me. I really feel that these high taxes have stifled economic growth." Jorge's comments illustrate the reason many socialist countries are experiencing a(n):

A. antitrust problem.

B. depression.

C. brain drain.

D. budget surplus.

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240. Recently, Juanita Martinez, the Prime Minister of Vuvuzela, announced that she is standing behind the concept of state-owned utilities, public schools, and the communications industry of her nation. Although not all industry is owned and managed by the government, her ideas would lead one to believe that she has a preference for:

A. a capitalistic state
B. a socialistic state
C. a communistic state
D. a nationalistic state

241. Today, the economic systems of most nations could most accurately be classified as:

A. pure capitalism.
B. pure socialism.
C. command economies.
D. mixed economies.

242. Both socialism and communism are variations of:

A. command economies.
B. competitive economies.
C. free-market economies.
D. plutocratic systems.

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243.A major trend in the world today is that:

A. free-market economies are moving more toward socialism and socialist economies are moving more toward capitalism.
B. productivity in the service sector is increasing much more rapidly than productivity in agriculture and manufacturing.
C. governments in socialist economies are increasing their use of social programs and relying on higher tax rates to finance these programs.
D. governments in countries with capitalist economies are paying less attention to environmental concerns and issues involving social equality.

244.A command economic system is characterized by:

A. reliance on the forces of supply and demand to determine what is produced.
B. reliance on the government to determine what is produced and who gets the output.
C. an extremely rapid rate of economic growth.
D. freedom of choice and freedom of competition.

245.The social and economic goals of _____ include private ownership of land and business.

A. capitalism
B. socialism
C. communism
D. a mixed economy

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246. During the recent recession, the administrations of Presidents George W. Bush and Barack Obama flooded several banking, financial services, and insurance firms with government funds in exchange (at least temporarily) for government ownership rights. The unprecedented move signaled the government's concern that the global banking system might collapse if these firms ended up in bankruptcy. The decision for active government involvement in the operations of these firms demonstrates:

A. the unforgiving nature of capitalism.
B. the desire for more individuals in the U.S. to live under a socialist system.
C. the trend toward mostly capitalist nations to move toward socialism.
D. the freedoms the U.S. government has under capitalism.

247. As the term "global" becomes "local," and as we see more opportunities to compete in the global market,

A. the long-term trend is for most nations to operate as mixed economies.
B. disagreements about the best economic system to embrace will cause many nations to close their doors to outside commerce.
C. the only industries that governments will want to own are the ones that are profitable.
D. the forecast is for socialist nations to trend toward communism (Cuba is the example) and for capitalist nations to trend toward socialism.

248. According to the *Reaching Beyond Our Borders* box, over the last decade six of the world's 10 fastest-growing countries were:

A. Asian.
B. African.
C. South American.
D. European.

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249. Over the years, the government of Montivia has focused on implementing programs that promote equality. In the short term, though, Montivia legislators are concerned about the very slow rate of growth that has plagued its national economy. In order to address this problem, the government is likely to:

A. take control of more major industries.
B. reduce taxes and cut back on some social programs.
C. make sure to balance its budget.
D. avoid the use of fiscal policies and reduce the supply of money in circulation.

250. In an effort to promote rapid growth, the government of Goldinia has kept taxes low, done little to regulate business activities, and implemented only modest social programs. The government is now facing political pressure to do more to clean up the environment and to reduce the inequalities of income and wealth. Which of the following statements is most accurate? Goldinia's government is currently taking:

A. a purely capitalist approach to achieve its economic goals, and is likely to continue doing so in the future.
B. a purely socialist approach to achieve its economics goals, and is likely to continue doing so in the future.
C. a predominately socialist approach to achieving economic goals, but the current pressures it faces suggest it is likely to adopt a more capitalist approach in the future.
D. a predominately capitalist approach toward achieving economic goals, but the current pressures it faces suggest it is likely to adopt a more socialist approach in the future.

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251. The prime minister of the nation of Urbania has called for Urbania's legislature to enact new legislation designed to shift his country away from socialism toward a more capitalistic system. The Prime Minister acknowledges that such a radical change will entail some hardships, and that some citizens will be unhappy with the changes. The most likely source of dissatisfaction with a move toward capitalism is:

A. decrease in wealth.

B. people will have less economic freedom.

C. tax rates will have to increase.

D. a trend toward unequal distribution of wealth.

252. The National Coalition on Healthcare Reform reports that nearly 18% of the U.S. population under the age of 65 is without health care. If this advocacy group succeeds in convincing the current administration and Congress to vote for basic health care for everyone, which of the following is likely to occur?

A. More rapid economic growth.

B. Higher taxes than in past years.

C. Increasing reliance on markets to determine economic outcomes.

D. An increase in the number of insurance companies.

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253. Several years ago, the nation of Florentina had a government-owned telecommunication system that lagged far behind other nations. In several of its rural areas, there was only one phone for an entire village of people. Government taxes collected for the purpose of maintaining the telephone system were very meager, so the notion of expanding service was almost impossible. The government of Florentina decided to sell the phone company to a private firm. The private firm expanded rapidly. It reported that even poor consumers were willing to pay for a private phone line. This government decision and subsequent sale was:

A. a move toward nationalism.
B. a move toward communism.
C. a move toward socialism.
D. a move toward capitalism.

254. The U.S. economic system relies on:

A. the private sector to measure its economic well being.
B. industries that produce capital equipment to determine how well things are going.
C. frictional unemployment statistics as the sole measure of economic health.
D. key economic indicators such as GDP, to measure economic progress.

255. The total value of final goods and services produced within a nation's borders in a given year is known as that nation's:

A. aggregate production quota.
B. aggregate domestic output.
C. index of aggregate economic output.
D. gross domestic product.

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256. Three important economic indicators of the United States are the unemployment rate, the price indices, and the:

A. debt to equity ratio (DER).
B. gross resource utilization index (GRUI).
C. gross domestic product (GDP).
D. index of capital formation.

257. The four basic types of unemployment are frictional, structural, seasonal, and:

A. cyclical.
B. procedural.
C. industrial.
D. traditional.

258. _____ unemployment refers to persons who purposefully quit their jobs and have not yet found a new job.

A. Frictional
B. Structural
C. Cyclical
D. Seasonal

259. _____ unemployment refers to unemployment caused by the restructuring of firms or by a mismatch between the skills of job seekers and the requirements of available jobs.

A. Frictional
B. Structural
C. Cyclical
D. Seasonal

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260._____ unemployment refers to loss of jobs due to a recession or a similar downturn in the economy.

A. Frictional
B. Structural
C. Cyclical
D. Seasonal

261._____ unemployment results when the demand for labor varies during the year.

A. Frictional
B. Structural
C. Cyclical
D. Seasonal

262.The _____ is a statistic used to compute the pace of inflation or deflation.

A. consumer price index
B. gross domestic product
C. index of leading indicators
D. index of inflationary trends

263.The measure used to report price changes at the wholesale level is the:

A. gross domestic product (GDP).
B. consumer price index (CPI).
C. wholesale price index (WPI).
D. producer price index (PPI).

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264._____ refers to a general rise in the price level of goods and services over time.

A. Acceleration
B. Recession
C. Inflation
D. Escalation

265._____ is a condition in which the price increases are slowing.

A. Deflation
B. Disinflation
C. Stagflation
D. Uniflation

266._____ is a condition in which the average level of prices is actually falling.

A. Deflation
B. Disinflation
C. Stagflation
D. Uniflation

267.A _____ is a very severe recession that is usually accompanied by deflation.

A. stagflation
B. retraction
C. depression
D. dissolution

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268.In recent years, U.S. manufacturing sector has experienced _____ productivity.

A. rising
B. relatively stable
C. falling slowly
D. falling very rapidly

269.The next wave of marketable innovations may involve new ways to produce and conserve energy. If we can turn new technology into marketable products and services that produce energy to run our businesses and homes, the U.S. could see a surge in output of goods and services. The Department of Economic Development would document this surge by measuring the ____.

A. gross domestic product
B. consumer price index
C. consumer marginal index
D. number of workers who are frictionally employed

270.One reason the CPI is monitored very closely by government, businesses, and workers is that:

A. it indicates whether we are running a budget surplus or a deficit.
B. some wages, interest rates, tax rates, and government benefits are tied to changes in the value of the CPI.
C. it is the best measure of worker productivity in the service sector.
D. the gross domestic product is computed from the reported increases in the CPI.

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271. _____ in the service sector has not shown the significant improvement that it has in the manufacturing sector. There are significant advances in the quality of service, but workers in this sector are unable to increase the number of persons served in a given time period.

A. The CPI
B. Technology
C. Productivity
D. The growth

272. Which of the following indicators provides the clearest indication that an economy is experiencing deflation?

A. A decrease in the unemployment rate.
B. A decrease in GDP.
C. An increase in the PPI.
D. A decrease in the CPI.

273. A collapse in Buldovia's banking system eventually led to companies unable to borrow money to run their businesses. Firms terminated employees. These circumstances cut into consumers' purchasing power, causing a severe decline in the prices of goods and services, better known as _____.

A. disinflation
B. deflation
C. contra inflation
D. overproduction

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274.Which of the following strategies may have a net effect on inflation?

A. Decreasing interest rates and decreasing taxes.

B. Proportionately increasing wages and increasing prices.

C. Decreasing prices and decreasing taxes.

D. Proportionately increasing prices and decreasing wages.

275.The nation of Florentina is in the midst of a serious economic downturn. The nation's GDP has declined steadily for over five years and is now at its lowest level in over 50 years. Florentina's unemployment rate is at an all-time high and the nation's CPI is falling. Florentina's economic condition is referred to as a:

A. period of stagflation.

B. balance of trade deficit.

C. depression.

D. retraction.

276.John complained to his buddy, Frank, that prices have increased a lot over the past year. Frank disagreed, saying that the prices of some goods have gone up a bit, but other prices have declined, noting that you can get some good buys on houses right now. Frank feels that the average price of consumer goods hasn't changed. Frank and John can refer to the _____ to learn how government economists currently view the price situation.

A. GDP

B. CPI

C. PPI

D. MEW

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277.Emily recently quit her job at a major corporation because she saw little chance for advancement. Although she is still searching for a new position, Emily believes the economy is healthy and she hears that several firms are hiring people with her qualifications. Which of the following statements about Emily's current situation is most accurate? Emily is:

A. not considered unemployed because she voluntarily quit her job.

B. an example of cyclical unemployment.

C. an example of frictional unemployment.

D. likely to find employment quickly if she seeks training in a different field.

278.Kathleen's company produces computer monitors and other peripheral devices for computers. About six months ago, Kathleen began to keep track of number of hours worked, and the resulting output at her particular work site. Comparing the results, she found that the number of workers (and the hours they worked) remained relatively steady over the past six months; however, the work site's output increased significantly. This indicates that:

A. productivity at the work site has increased.

B. the work site sold-off some of its excess inventory.

C. the company's prices have increased faster than the wages paid to workers.

D. the company should hire more workers.

279.Which of the following statements about business cycles in the U.S. is most accurate?

A. Business cycles occur precisely every five years.

B. Long-term business cycles have only two phases—boom and bust.

C. Seasonal business cycles occur within a year.

D. Business cycles are based on theories.

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280. Which of the following statements about productivity in the service sector of the U.S. economy is most accurate?

A. Productivity in the service sector has increased much more rapidly than productivity in the manufacturing sector.
B. Improving productivity in the service sector is much less important than improving productivity in the manufacturing sector, because the service sector does not really produce anything.
C. Productivity in the service sector is easier to measure than productivity in agriculture.
D. Measures of productivity in the service sector do a poor job of taking quality improvements into account.

281. Chase is a recent college graduate with a new job as an engineering trainee for a large defense company. Now that he is making good wages, he hopes to start saving for his first house and also contribute toward the company retirement plan. As he looks over his monthly bills, Chase is concerned about ever getting ahead of the game. His food bill, car payment, and mounting gasoline payments keep him in the "just making ends meet" category. As his mind wanders back to the "good ol' college days," he reflects on a time when gas and food seemed a lot more reasonable. Chase is experiencing the effects of:

A. inflation.
B. conditions of low demand.
C. involuntary CPI.
D. cyclical unemployment.

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282. Gabby and Gus Malloy recently got pre-approved on a loan for their first house purchase. They are speculating on how much they should bid on their number one choice, a small, three-bedroom bungalow near a major college town. Which of the following indicators may be an important factor in whether they are able to successfully put in a low bid?

A. The federal tax rate in that area

B. The unemployment rate in that area

C. The producer's price index in that area

D. The CMI, or consumer's marginal index

283. Colin just landed a job working for a major online gaming company in Silicon Valley. In a lot of ways, this is his dream job come true, the chance to work for a company that makes gaming software and live in California at the same time. As his plane lands at San Jose International, he pictures a snazzy apartment with a palm tree right outside the front door. A few hours later, as he meets a property manager of a large apartment complex, his heart sinks. The price of apartments is out of sight! Back at the hotel, he logs on to the Bureau of Labor Statistics to try to get a better picture of why the cost of housing is so high in this region of the U.S. Which factors may be causing the rise in the price of housing?

A. Low unemployment rate and increasing GDP

B. High consumer's marginal index and low PPI

C. Low CPI and high state tax rate

D. Decreasing Disruptive Technologies Index and high unemployment

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284.At the onset of the recent economic slowdown, prices at the grocery stores continued to rise. In some cases, products such as milk and bread almost doubled in price. A Boston newspaper reported, "The price of eggs was up 40% and milk was up 26%." Consumers were already being hit with high energy costs, and now their confidence in the economy was further shaken with job cuts and a loss of discretionary income due to increases in food prices. The economy was slowing, but prices were rising, signifying the potential for _____.

A. deflation
B. stagflation
C. disinflation
D. equalization

285._____ refers to the efforts of the federal government to keep the economy stable by increasing or decreasing taxes and/or government spending.

A. Monetary policy
B. Incomes policy
C. Fiscal policy
D. Cyclical policy

286.Fiscal policy involves increases or decreases in:

A. the money supply.
B. interest rates.
C. government spending and taxes.
D. exports and imports.

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287.When the federal government's collection of tax revenues is less than what it spends in a given year, it results in a:

A. Federal Reserve allowance.
B. GDP deflator.
C. balance of payments deficit.
D. national deficit.

288.When the government runs a continual budget deficit, it increases the:

A. national debt.
B. balance of payments deficit.
C. federal capital account.
D. money supply.

289.In the U.S., the _____ has the role of managing the money supply and interest rates.

A. United States Treasury
B. Federal Reserve Bank
C. State Department
D. Federal Deposit Insurance Corporation

290.One way to lessen the U.S. government budget deficit is to:

A. cut spending.
B. increase spending.
C. call in government savings bonds.
D. increase government social programs such as welfare, food stamps, and Medicare.

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291. Efforts by the Federal Reserve Bank (the Fed) to control the money supply and interest rates are known as:

A. fiscal policy.
B. incomes policy.
C. monetary policy.
D. securities policy.

292. The Federal Reserve Bank operates:

A. as a semi-private organization not under the direct control of the government.
B. under the direct control of the executive branch of the government.
C. under the direction of the Banking Oversight Committee of Congress.
D. as a special agency of the U.S. Treasury.

293. Which of the following statements about government deficit spending is most accurate?

A. The federal government violates the law by running deficits because the U.S. Constitution requires the government to balance its budget each year.
B. Although the government used to run big deficits, it has consistently run surpluses since the late 1980s.
C. The government has used deficit spending to lower the national debt.
D. One reason the government has a hard time reducing deficits is that there is a great deal of pressure on the government to expand its spending each year.

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294.While scanning the movies section in your local online newspaper, you click on the business section by mistake. While you're there, you quickly scan a report that says government spending will again exceed tax revenues in the current year. This means that the:

A. total national debt is likely to increase.
B. national deficit is likely to decrease.
C. rate of inflation is likely to fall.
D. monetary policies pursued by the Fed need tightening.

295.Which of the following statements about the Federal Reserve Bank (the Fed) is most accurate?

A. The Fed is an agency of the U.S. Treasury Department that has the responsibility of collecting tax receipts for the IRS.
B. The Fed manages the U.S. money supply and interest rates.
C. The Fed is the primary government agency involved in carrying out our nation's fiscal policies.
D. The Fed is the agency of the government that ensures the U.S. maintains enough gold reserves to pay any foreign debts that result from international trade.

296.During the recent economic crisis, Presidents George W. Bush and Barack Obama increased government spending by trillions, in order to revive the ailing economy. Their strategy followed the economic theory known as:

A. Malfusian
B. Bernankeism
C. Keynesian
D. Greenspanian

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297.Keynesian economic theory suggests:

A. reducing government involvement in the free-market economy.
B. proposing long-term solutions in order to create wider swings in the business cycle.
C. a more permanent government involvement in the banking system, even creating a national banking system that owns and operates most of the global and regional banks.
D. short-term increases in government spending to stimulate the economy.

298.Senator Gong Lee is alarmed at the state of the economy. Unemployment is high and GDP is low. Senator Lee has called for Congress to take action to increase government spending and cut taxes in order to stimulate the economy. The actions called for by Senator Lee are examples of:

A. monetary policy.
B. fiscal policy.
C. discretionary income policy.
D. social investment policy.

299.Your professor showed you an online video of the chair of the Federal Reserve Bank speaking to the American public. The message she is conveying indicates that Fed economists are worried about inflation and believe the best course of action would be to slow the economy. Which of the following policies is the Fed most likely to pursue?

A. Increase taxes.
B. Decrease interest rates.
C. Restrict the money supply and increase interest rates.
D. Devalue the dollar on international currency exchanges.

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300. Ben recently lost his job at a major U.S. auto plant in one of the rust belt states. After looking unsuccessfully for work in a similar industry for several months, he plans to start interviewing with road and bridge repair companies. He speculates that if the government begins to contract with companies that repair highways and bridges, he may find steady work, at least in the short term. Which of the following statements best describes the strategy behind his thoughts?

A. The best way for the government to reign in on too much money floating around the system is to hire people and pay them wages.

B. Ben doesn't understand the causes of unemployment. We obviously don't need any more autos on the roads if the plant has closed. Repairs will slow down rather than increase.

C. If the current administration asks the Fed to raise interest rates, it will do more than if the current administration begins contracting with road repair companies.

D. By increasing government spending through road and bridge repair and construction, the government will intervene in the free-market economic system to help jump-start a weak economy.

301. Lance owns Lance Lawns Irrigation Systems, LLC, a company that installs and maintains underground lawn irrigation systems. Business is down due to new housing starts being negatively impacted by a deep recession. To make things worse, his bank called yesterday to inform him that his credit limit (interest fee of 12.5%) will be cut from $30,000 per year to $15,000 per year, unless he is willing to pay a higher interest rate of 20%. As Lance drives to the first job this morning, he knows that his last task of the day will be to reduce the hours for his two employees. He can't afford to work employees eight hours per day, with only a $15,000 line of credit. Which of the following strategies will help Lance's situation?

A. Increase government spending on public parks.

B. Decrease government spending so that banks can keep more reserves.

C. Fed decreases interest rates.

D. Fed increases the federal funds rates to jump-start the economy.

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302. In one of his weekly broadcasts, the Federal Reserve Chairman remarked that inflation had begun to tick upward. However, unemployment in the U.S. was still quite high and economic growth had slowed. With short-term interest rates close to 0 (zero), the Chair did not visualize that _____ policy would be able to do anything for the high unemployment problem. He felt that _____ policy would be more useful for bolstering employment, but that would require local and state governments and the federal government to provide tax breaks for corporations.

A. federal; state
B. fiscal; monetary
C. monetary; fiscal
D. fiscal; federal

303. If businesses are producing at capacity, and the nation is experiencing almost full employment (a very low rate of unemployment—less than 2%), the Fed may decide to:

A. lower interest rates.
B. raise taxes.
C. lower taxes.
D. increase interest rates.

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Mini-Case

Gig Abite is a bright, hard-working engineer who once owned a successful engineering consulting firm in his native country of Frinezia. Gig became discouraged by the high tax rates in Frinezia, so he immigrated to the United States eleven years ago. Soon after moving to the U.S., Gig again started his own business, which he named Giganeers Consulting. The company struggled at first, and almost went under midway through its second year. However, Gig never lost faith, the company survived, and it soon developed a growing reputation for quality work and dependable service. Giganeers began experiencing sustained growth early in its fourth year. In fact, Gig hired additional employees over the next few years to keep up with the increasing workload. His company, which started with only Gig and two other full-time workers, now provides jobs for 43 full-time employees as well as many part-time workers.

Despite these past successes, some clouds are on the horizon. The company recently suffered its first drop in business since its very early years. Gig is convinced that the problem is not with his company, but rather due to a downturn in the U.S. economy. He heard a national broadcast last week reporting that the value of the total output of final goods and services in the U.S. declined over the last quarter. The news anchor went on to state that many economists believe that this downward trend is likely to continue for several more months. Gig is concerned that he will have to lay off some of his employees if the economy doesn't improve. He hopes that the government does something soon to put the economy back on track.

304. Gig started Giganeers to earn a profit, but by working hard and increasing his market share, he was able to create jobs for others. This is an example of the _____ concept.

A. circular flow

B. invisible hand

C. equitable income

D. social dividend

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305.Gig's native country of Frinezia was much different from the United States. In addition to its higher tax rates, the government offered more extensive social programs that were designed to redistribute income and reduce inequality. Although small businesses were privately owned and operated in Frinezia, many basic industries were owned and operated by the government. From this information, you would classify Frinezia's economic system as _____.

A. Capitalism
B. Socialism
C. Communism
D. Pluralism

306.The broadcast that reported a decline in total output for the United States probably got some of its information from the government's measurement of _____.

A. GDP
B. CPI
C. federal deficit
D. balance of payments

307.The broadcast cited forecasts that national output might continue to fall in the future. If total output shows decline for two consecutive quarters, economists would classify this as a _____.

A. depression
B. retraction
C. period of stagflation
D. recession

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308. Gig recently heard a radio report that the Fed will try to help get the U.S. economy back on track. If the Fed takes action, Gig would likely see:

A. lower interest rates.

B. an increase in the size of the government's budget deficit.

C. lower government spending.

D. an increase in the minimum wage.

309. Besides the slowdown in the general economy, Giganeers faces threats of competition from several other companies that provide engineering consulting services. In order to gain more business, Gig tries to convince potential clients that his company offers better service than the competition. He has advertised heavily in professional magazines, often quoting some of his highly satisfied clients. The market Giganeers operates in is an example of:

A. perfect competition.

B. monopoly.

C. oligopoly.

D. monopolistic competition.

Essay Questions

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310. Discuss the views of economist Adam Smith. How does the "invisible hand" philosophy suggested by Smith benefit society as a whole?

311. Explain the significance of "price" in a free-market economic system.

312. Identify and describe the four basic rights that form the foundation of capitalism.

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313. When describing the state of the U.S. economy, reporters often refer to the nation's GDP, its unemployment rate, and the CPI. Explain what each of these terms means and why each measure is significant.

314. Explain the difference between fiscal policy and monetary policy. Discuss how each of these approaches can be used to influence the state of the economy.

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Chapter 02 Understanding Economics and How It Affects Business

Answer Key

True / False Questions

1. America's business success is largely due to an economic and social climate that allows businesses to operate freely.

   TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

2. Global economics and politics have no significant influence on businesses in the United States.

   FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

3. The IMF has recently proposed a one-time global wealth tax to help bring the debt of nations closer to pre-recession levels.

   TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy

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Topic: Economics and the Types of Economic Systems

4. The study of how society chooses to employ resources to produce goods and services and to distribute them for consumption among various competing groups and individuals is known as sociology.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

5. Economists study how people use resources to produce and distribute goods and services for consumption among competing groups and individuals.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

6. Macroeconomics is the economic perspective that looks at the operation of a nation's economy as a whole.

TRUE

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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7. Microeconomics focuses on the decisions and behavior of people and organizations in particular markets.

TRUE

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

8. Resource development is concerned with finding the best way to utilize the fixed amount of resources a society has available.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

9. Resource development is the study of how to increase resources and to create the conditions that will make better use of those resources.

TRUE

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Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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10. Peace and prosperity will flourish if we can find the one best way to divide existing resources among nations.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

11. Thomas Malthus believed that overpopulation was a major cause of poverty.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

12. In developing nations of the world, population has leveled off and is not expected to increase dramatically in the future.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

13. Studies about the effects of population growth on the economy are part of macroeconomics.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember

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Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

14. Economic progress can occur when business owners provide jobs and economic growth for their employees, their communities, and themselves.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

15. Economist Adam Smith's important contribution was an inquiry as to why some nations are wealthy, while others remain poor.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

16. Adam Smith believed the self-interest of businesspeople would lead them to create needed goods, services, and jobs.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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17. The "invisible hand" in Adam Smith's theory turns self-directed gain into social and economic benefits for all.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

18. According to Adam Smith, the "invisible hand" refers to the government's effort to always keep a check on the wealth creation of individuals, so that no one business would control a market for a particular good or service.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

19. An economist is examining how consumers in the automobile market have responded to recent price increases by car manufacturers. He is examining a microeconomic situation.

TRUE
Microeconomics examines the economic behavior of consumers and organizations in particular markets.

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Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

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20. Macroeconomics looks at long-run economic problems while microeconomics examines short-run economic problems.

FALSE

The key distinction between macroeconomics and microeconomics is that macroeconomics is concerned with the performance of the economy as a whole while microeconomics is concerned with the behavior of people and organizations in particular markets.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

21. Thomas Malthus believed that people in most countries would never be able to achieve high standards of living unless the problems of overpopulation were addressed.

TRUE

Thomas Malthus viewed rapid population growth as a major problem that would prevent standards of living from rising above subsistence levels. There are still people, called neo-Malthusians, who believe that Malthus was correct.

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Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

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22. Adam Smith believed that since businesspeople are motivated to improve their own prosperity, their actions are unlikely to benefit society as a whole.

FALSE

The principle of the invisible hand says that activities directed toward self-gain actually end up helping others. For example, when entrepreneurs start up a new business in search of personal profits, they end up creating jobs for others and producing goods and services that satisfy the wants of consumers.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

23. Adam Smith believed that an economic system couldn't truly prosper unless people were taught to value the welfare of others above their own personal gain.

FALSE

Smith believed that people would only work hard and create wealth if they were rewarded for doing so. Thus, self-gain is the primary source of motivation in Smith's view of the economy. Smith also pointed out that this desire for self-gain would result in the production of goods and services and the creation of jobs that would benefit others within the economy.

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Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

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24. The concept of the invisible hand begins with the assumption that the primary motivation of entrepreneurs is that they will prosper from their own hard work.

TRUE

The concept of the invisible hand suggests that the primary motivation of entrepreneurs is their own individual gain. However, in seeking to earn a profit for themselves, entrepreneurs will create jobs and produce goods and services that satisfy the wants of others.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

25. Adam Smith's research focused on determining the best way to distribute a fixed amount of resources, rather than on how to create more wealth.

FALSE

Smith's views focused on wealth creation through promoting entrepreneurship. Rather than simply dividing up existing wealth among competing groups, Smith sought to define the conditions under which more wealth could be created.

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Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

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26. Large educated populations can contribute to an economy by offering knowledge and entrepreneurship.

TRUE

Education is an important component of innovation. Educated populations usually have a stronger desire to innovate because these people tend to use their knowledge to think critically, to synthesize information in order to solve problems.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

27. Adam Smith believed that incentives to seek personal gain would create wealth, but that the government must then step in to make sure that this wealth is equitably distributed.

FALSE

Smith believed the invisible hand turned self-directed behavior into benefits for all. He felt that as society in general prospered, people would naturally help the less fortunate. He did not foresee the need for active government policies to redistribute income.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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28. As indicated by the Making Ethical Decisions box, activities that lead to corruption can destroy free economic opportunities because they interfere with the right to freely compete.

TRUE

Capitalism is based on four basic rights; however, in order for all participants to have the same opportunities to compete and to choose, all must operate with high ethical standards of behavior. Corruption which is often brought about as the result of greed is detrimental to the capitalistic system.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

29. In capitalist countries, the government decides what to produce and how the goods and services will be produced.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

30. Capitalism is the foundation of the U.S. economic system.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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31. State capitalism is the combination of free markets and government control.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

32. The most fundamental of all rights in capitalism is the right to private property.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

33. Under capitalism, the government prohibits people and businesses from competing with each other.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

34. A basic right under capitalism is the right of businesses to receive government funding.

FALSE

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.

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Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

35. Free-market capitalism has made it more difficult for individuals to gain wealth.

FALSE

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

36. Due to the fundamental rights afforded to us by a free-market capitalistic system, people are more willing to take calculated risks.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

37. A free-market economic system is one in which the market of buyers and sellers decides what is produced, how much is produced, and how it is distributed.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
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Topic: Economics and the Types of Economic Systems

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38. Under the basic principle of supply, as the price goes down, manufacturers and suppliers of a product tend to supply less of the product to the market.

TRUE

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

39. Demand refers to the quantity of a good that consumers are willing and able to buy at different prices at a specific time.

TRUE

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

40. At the equilibrium price, the quantity consumers desire to buy equals the quantity sellers desire to sell.

TRUE

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

41. If the quantity supplied in a market exceeds the quantity demanded, a shortage will exist.

FALSE

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Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

42. If a shortage exists in a market for a good, the price of that good will tend to fall.

FALSE

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

43. The point of intersection between the supply and demand curves is called the stress point.

FALSE

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

44. In the long run, the market price tends to adjust toward the equilibrium point.

TRUE

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Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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45. Countries that rely on a free-market system are plagued by persistent shortages or surpluses of goods and services.

FALSE

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

46. One of the drawbacks of free markets is the fact that competition in such markets undermines the ability of price to adjust to its equilibrium value in the long run.

FALSE

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

47. In perfect competition, each firm produces a product that is clearly differentiated from the products of other firms in the same market.

FALSE

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

48. A monopoly occurs when there is a single seller for a product or service.

TRUE

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Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

49. Economists refer to a market in which a few sellers dominate the supply side as monopolistic competition.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

50. Product differentiation is a key to success in monopolistic competition.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

51. In the United States, laws prohibit the creation of most types of monopolies.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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52. One strength of a free-market economic system is that it emphasizes the fair and humane treatment of the less fortunate in society.

FALSE

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

53. The greed of businesspeople represents one of the greatest dangers to the operation of a free-market system.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

54. Fatima resides in a country where the economic system is primarily based on free-market capitalism. Fatima is likely to have the freedom to buy and sell property.

TRUE

The right to private property is the most fundamental of all rights under capitalism. This right means that people can buy, sell, and use land, buildings, machinery, inventions, and other forms of property. They can also pass the property on to their children.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

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55. A surplus currently exists for a product called widgets. In a free-market system, the government must step in and buy any widgets that consumers do not buy in order to eliminate the surplus and establish equilibrium.

FALSE

Markets for products tend to move toward equilibrium through price adjustments. If there is a surplus of widgets, the price of widgets will fall, and buyers and sellers will adjust until equilibrium is achieved. Thus, adjustments in market price will restore equilibrium without government intervention.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

56. In a free-market economic system, the lack of government control and regulation means that businesses find it easy to take advantage of customers by offering poor quality products at high prices.

FALSE

One of the fundamental characteristics of free markets is competition. Because businesses compete with each other, they must provide customers with quality products at fair prices and offer good service. Firms that produce poor products, charge high prices, or provide poor service will lose business to companies that provide customers with a better deal.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
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Topic: Economics and the Types of Economic Systems

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57. History shows that free-market capitalism leads to a fair and equitable distribution of wealth.

FALSE

In many nations, capitalism has led to an unequal distribution of wealth. In fact, some businesspeople have sought personal gain through the exploitation of workers. Examples of this sort of exploitation include child labor, sweatshops employing immigrants for long hours at low wages under dismal working conditions, and even outright slavery.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

58. Sarah owns a bakery that specializes in cupcakes. Until recently, she charged a price of $5 for each treat. At this price Sarah's customers bought an average of 384 cupcakes each week. For the last few weeks, she has reduced her price to $3.95 per cake, and her customers have purchased an average of 596 cupcakes each week. These results are consistent with the economic concept of demand.

TRUE

Generally speaking, the quantity demanded tends to rise when the price of a good falls.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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59. Monica notices that just a few big companies produce the vast majority of soft drinks. She would be correct in describing the soft drink industry as an oligopoly.

TRUE

An oligopoly exists when a few large sellers dominate a market. Examples of oligopolistic markets include aircraft, automobiles, soft drinks, and breakfast cereals.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

60. Glamour Gal, a popular women's cosmetics company is gaining popularity among younger women. Differentiating itself from the sea of companies that compete for the same business, it focuses on products for sensitive, youthful skin. Glamour Gal clearly operates in an oligopolistic environment.

FALSE

Glamour Gal competes against several companies. *Monopolistic competition* refers to a large number of sellers who produce very similar products. Buyers perceive the products to be different due to the firms' ability to differentiate themselves from each other. An oligopoly is a market in which just a few sellers dominate the market.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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61. Glamour Gal is a popular cosmetics company. Although it is gaining in popularity among younger women, its promotional strategy continues to focus on the shadow-free finish that it produces on almost any skin type. Due to the fact that its industry faces monopolistic competition, the company knows that it must continue to differentiate itself from the competition.

TRUE

Glamour Gal competes against several companies. *Monopolistic competition* refers to a large number of sellers who produce very similar products. Buyers perceive the products to be different due to the firms' ability to differentiate themselves from each other.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

62. As you drive to school in the morning, you will probably flip through several radio stations before deciding to settle on one for the duration of the drive. For instance: you can listen to a "fair and balanced" talk show; an "intelligent talk" program; an interactive "call-in" talk show; a "self-improvement" talk show; and, even an "all sports" talk show. With so much *monopolistic competition* in radio programming, radio stations focus on offering you something just a little different.

TRUE

Monopolistic competition refers to a large number of sellers who produce very similar products. Buyers perceive the products to be different due to the firms' ability to differentiate themselves from each other.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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63. Roundland is a nation with an economic system that closely approximates pure capitalism. While Roundland's economy is likely to generate a great deal of wealth, it may do a poor job of providing an acceptable level of income for the elderly or disabled.

TRUE

A strength of capitalism is its ability to generate wealth. A weakness of capitalism is that it results in a very unequal income distribution that may not be very responsive to those who are too old or infirm to compete in the market system.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

64. In the newspaper this morning, you read about the downfall of a multinational entertainment business, and a report that the company's CEO enjoyed a 9% increase in his salary during the same year that the company's profits were down 35%. As you read further, you learn that the company's board of directors approved undeserved salary increases. Clearly, this is an example of how inequality and greed can infiltrate the free-market economic system.

TRUE

One of capitalism's limitations is the fact that it has brought "inequality" to many parts of the world. Without government regulation, greed can proliferate in this type of economic system. Business owners and business executives can often negotiate higher salaries and bonuses that are not based on performance.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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65. As you scan the national news online, you read about the BXY Utility Company's latest problems. The story describes an expansive retaining wall that collapsed during a flood last week, spewing toxic coal ash, burying homes, and causing a few fatalities. An editorial claims that the company will not be held accountable to the same standards as the asbestos companies of a few years back that paid severe fines and even went out of business due to their lack of attention to environmental clean-up. You agree with the writer because you recently studied about the various competitive markets, and utility companies clearly fall under monopolistic competition.

FALSE

Utility companies are considered regional monopolies. The U.S. legal system has permitted monopolies in the markets for public utilities that sell natural gas, water, and electric power. As is often the case, when there is only one company serving a wide area, consumers do not have a choice, and the firms are not as eager to maintain their capital investments.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

66. The PowerHouse Utility Company recently built a nuclear power plant in a southern state and started competing against BXY Utility Company that has served customers in that region for 65 years. Due to deregulation, consumers now have a choice among utility companies in this area. Although PowerHouse has made a sizeable capital investment, if it successfully grows market share, eventually prices for electricity may stabilize or fall.

TRUE

New legislation has ended the monopoly status of utilities in some areas of the U.S., permitting new competitors to seek customers in regions where they could not operate in the past. The purpose of *deregulation* is to increase competition among these utility companies, and to eventually lower prices for consumers.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze

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Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

67. Socialists believe that the primary economic function of the government is to promote rapid economic growth.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

68. In socialist economies, the government owns some, if not most, basic businesses such as telecommunications systems and utilities.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

69. The top tax rate on personal income in most socialist economies is usually lower than the top tax rate on personal income in capitalist economies.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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70. The major benefit of socialism is that it creates strong incentives to work hard and take the risks associated with starting and operating a business.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

71. Socialists believe that wealth should be more evenly distributed than what actually occurs in a free-market capitalistic system.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

72. Workers in socialist countries often get longer vacations and more social benefits than workers in free-market economies.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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73. Over the past decade, socialist economies have proven to be more successful at creating wealth and jobs than capitalist economies.

FALSE

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

74. One drawback of socialism is that it may result in a reduction in the individual's incentive to work hard.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

75. Brain drain is the loss of the best and brightest people to other countries.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

76. High tax rates in socialist countries is a major reason these nations have experienced a brain drain.

TRUE

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Accessibility: Keyboard Navigation

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Understanding Business 11th edition Nickels Test Bank

Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

77. Incentive to own and operate businesses is high in nations whose governments are proponents of socialistic practices.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

78. One of the benefits of communism is that it allows individuals a great deal of freedom to make their own economic decisions.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

79. Communism is an economic and political system in which the state makes almost all economic decisions and owns almost all the major factors of production.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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80. Most communist countries today are suffering from severe economic problems.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

81. A major distinction between capitalism and socialism concerns the distribution of income.

TRUE

Under capitalism, self-interest is the driving force, so people must be rewarded for what they produce. This can result in unequal distribution of income. Under socialism, the emphasis is on a more equal distribution of income, so those earning more are often expected to share their incomes with those who earn less. This is often accomplished by placing high tax rates on people with high incomes and using the tax revenues to pay for programs that benefit people with lower incomes.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

82. Countries that wish to avoid shortages and surpluses of goods should adopt a communist system.

FALSE

In a communist system, prices do not reflect supply and demand as they do in a free-market system. Thus, the government has no way of knowing what to produce to best satisfy the wants of consumers.

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Accessibility: Keyboard Navigation

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Blooms: Understand
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

83. Workers in nations who are strong proponents of communism work much harder and longer hours.

FALSE

Communism is a political system of a command economy that favors government ownership of most property and government control over most economic decisions. Under a communist system, the government generally maintains a great deal of control over its citizens' lives. Businesspeople are not inspired to work hard because the government takes most of their earnings.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

84. In the small nation of Equalia, the government owns several of the key businesses and provides a wide range of social services. The government places a great deal of emphasis on eliminating large disparities in people's incomes. These features of Equalia's economy are consistent with a socialist economic system.

TRUE

Socialism is based on the premise that the government should own basic businesses in order to distribute profits more evenly. In most socialist economies, the government provides a wide range of social services and emphasizes an even distribution of income.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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85. Marina left her native land in Eastern Europe in order to become a nanny for a family in a western suburb of Chicago, Illinois. One of the benefits of her arrangement was that she could attend the community college near her family's residence. When she arrived at her new job, she experienced the differences from a predominately socialist nation and a capitalist nation. Marina noted that public transportation in northern Illinois was limited and expensive, making it difficult to get to school. For a negligible fee, the government in her native country provided public transportation for everyone. Marina's native country's economic system was more characteristic of socialism.

TRUE

Socialism is an economic system based on the premise that some, if not most, basic businesses such as steel mills, coal mines, and utilities should be owned by the government so that profits can be more evenly distributed among the people. Nations that practice socialism usually collect higher taxes than those that practice capitalism, in order to pay for things such as transportation that are offered to everyone.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

86. Socialism and communism are both variations of a free-market economy.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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87. In command economies, the government plays a major role in deciding which goods are produced and who will get them.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

88. Governments that were predominantly capitalist are moving toward socialism, while governments that were predominantly socialist are moving toward capitalism.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

89. Like most nations, the United States has a mixed economy.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

90. Most countries throughout the world can be classified as either purely capitalist or purely socialist.

FALSE

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Blooms: Remember
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

91. There is general agreement in the United States on the degree to which the government should be involved in the economy.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

92. Subtle differences such as the right to one's religious preference make the command economic system known as communism more like a mixed economy than a socialistic system.

FALSE
Mixed economies evolve when governments recognize the negative effects of purely capitalist or purely socialist or communist systems, and implement programs that capture the characteristics of the other economic systems in the hopes of creating a more balanced economy.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

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93. In the past, socialist nations have realized that some of the government-run businesses do not grow as quickly as businesses that operate for a profit.

TRUE

Under socialism, basic industries such as telecommunications, utilities, and, broadcasting are usually owned and managed by the government. Tax revenues pay for the maintenance of these industries. They often lag behind similar industries in other countries that are privately owned and operated for a profit. In socialist nations, the taxes collected to support these industries are not enough.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

94. Although mixed economies tend to improve economic conditions, moral values prevent communist nations such as China and Vietnam from progressing in this direction. Overall, economic progress continues to be very slow in these nations.

FALSE

China and Vietnam recognize the economic benefits of opening their doors to new business and permitting these businesses to operate without government intervention.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

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95. According to the *Reaching Beyond Our Borders* box, Africa has been one of the fastest-growing regions in the 21st century.

TRUE

A booming commodities market along with expanding economies has led to unprecedented growth in Africa. Over the last decade, six of the world's 10 fastest-growing countries were African. Africa has even outpaced the growth of East Asia.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

96. In a mixed economy, the government's goal is to grow the economy and maintain some measure of social equality.

TRUE

Mixed economies exist when the market and the government are both involved in the allocation of resources. Socialist economies have adopted some elements of free-market systems in order to stimulate more growth, while free-market economies have adopted a larger role for the government to promote a more equitable distribution of income.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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97. Sweetland is a nation that publicly supports a free-market economy with private ownership of businesses. Over time, the government of Sweetland has developed policies designed to help the needy and reduce the level of income inequality. It pays for these programs by levying relatively high taxes on businesses and workers. These arrangements suggest that the economy of Sweetland is trending toward pure capitalism.

FALSE

Pure capitalism is a system that emphasizes individual freedom and the profit motive. Socialism, on the other hand, emphasizes wealth equality. To achieve that goal, socialist countries levy high taxes to provide for social programs designed to bring about a more equitable distribution of wealth. Sweetland has elements of both capitalism and socialism, so it is best classified as a mixed economy.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

98. Deanne is a vocal critic of socialism. She likes to point out that in recent years the governments in many socialistic nations have cut back on government services and have reduced taxes. Deanne believes that this trend will ultimately result in all nations adopting pure capitalistic ideals. Recent evidence suggests that Deanne's views are essentially correct.

FALSE

It is true that the governments of many socialist nations have reduced their social programs and have cut taxes, which suggest a movement to become more like free-market economies. However, they have not totally abandoned the socialist approach. Also, Deanne's observations ignore the increasing government involvement in many free-market economies. The result of these trends is the emergence of mixed economies rather than a move toward pure free-market or pure command economies.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-04 Analyze the trend toward mixed economies.

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Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

99. Recently, Juanita Martinez, the Prime Minister of Vuvuzela, announced that she is standing behind the concept of state-owned utilities and public schools in her nation. Although not all industry is owned and managed by the government, her ideas would lead one to believe that she has a preference for socialism.

TRUE

Socialism is a command economic system where the government owns and operates some of the major industries such as the transportation industry, utilities, telecommunications and broadcasting, and the school system.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

100. Most nations recognize that private enterprise is detrimental to business growth and what is best for consumers. Recently, a nation had the opportunity to sell its government-owned telecommunication system to a private firm. Instead it realized that it would be better off if it raised taxes so that it could maintain the status quo.

FALSE

Privately owned businesses tend to grow and prosper as compared to businesses that are owned by governments. Governments are often unable to financially support these businesses at much beyond a level of subsistence. Most countries that have sold or privatized their government-held businesses have found that these particular industries have expanded at a faster rate.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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101. We use indicators such as (1) the gross domestic product (GDP), (2) the interest rate, and (3) the price indexes to measure the health of our economy.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

102. The total value of a country's output of final goods and services in a given year is known as the gross domestic product (GDP).

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

103. Any output produced by U.S. firms is included in the value of U.S. GDP, even if the output was produced in a foreign country.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

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104. GDP figures do not include the value of illegal activities.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

105. To be classified as unemployed, a person must be at least 16 years old and trying to find a job within the past four weeks.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

106. Frictional unemployment occurs because the economy is experiencing a recession.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

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107. Structural unemployment refers to unemployment caused by the restructuring of firms or by a mismatch between the skills or location of job seekers and the requirements or location of available jobs.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

108. Inflation refers to a general rise in the prices of goods and services over time.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

109. Inflation refers to the persistent rise in the purchasing power of money.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

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110. Disinflation refers to a situation in which prices continue to rise, but not at the rate they were rising previously.

TRUE

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Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

111. Deflation means prices are declining.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

112. The consumer price index (CPI) measures what is happening to prices at the wholesale level.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

113. The CPI measures the pace of inflation or deflation.

TRUE

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

114. The CPI is based on the prices of a carefully selected market basket of goods, all of which consumers can purchase at a supermarket.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

115. Some wages, tax brackets, interest rates, and government benefits are based on the CPI.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

116. Core inflation figures omit health care prices, but not energy prices.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

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117. The producer price index measures what is happening to prices at the wholesale level.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

118. Productivity of workers in the U.S. is helped by the use of better machinery.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

119. The higher the measurement of productivity, the higher the likely costs of production.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

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120. An increase in productivity means that a worker is now able to produce more goods and services in the same amount of time.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

121. As productivity increases, the cost of producing goods and services is likely to fall.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

122. In the service sector of the economy, the influx of machinery such as computers increases output per worker, but does little to improve the quality of services.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

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123. Current measures of productivity in the service sector provide an accurate measure of changes in the quality of output.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

124. An economy is said to be in a recession if GDP declines for two or more consecutive quarters.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

125. A depression is a severe recession that is often accompanied by deflation.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

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126. A prediction that GDP will increase significantly over the next six months is bad news for most businesspeople.

FALSE

An increase in the GDP would indicate that the output of final goods and services is rising. This indicates a healthy and growing economy, which would be good news to most businesses.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business

127. Although changes in the CPI provide interesting insights into the overall performance of the economy, these changes have little practical impact on the lives of ordinary people.

FALSE

Changes in the CPI indicate whether the economy is experiencing inflation, disinflation, or deflation. For example, a significant increase in the CPI indicates that prices of a wide variety of consumer goods are rising. Moreover, changes in the CPI can directly influence the wages some people receive (through cost of living adjustments), the interest rates some people pay, the benefits the government pays to various recipients, and the tax brackets that are used to determine the income tax rate applied to earnings.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business

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128. It is understandable that productivity is rising faster in the service sector because service businesses have newer technologies than the manufacturing sector and fewer laborers.

FALSE

A problem in the service sector is that it's difficult to measure the output per worker due to the unique nature of services.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business

129. A rising GDP, rising unemployment rate, and rising inflation rate signify a healthy economy.

FALSE

A rising GDP, declining unemployment rate, and decreasing inflation would signify a healthy economy.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business

130. A problem with the CPI is that it measures the price changes of only food and clothing, while ignoring what happens to the prices of such important items as medical care and energy.

FALSE

The CPI is based on the prices of food, apparel, energy, healthcare, housing, transportation, education, and other services.

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Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business

131. Danny was laid off from his job five months ago. At first, he looked for a new job every day. During the past six weeks, however, Danny became depressed about his employment status and quit trying to find a job. According to the criteria used by the government, Danny is a civilian whose job status is included in computing the national unemployment rate.

FALSE

The unemployment rate refers to the number of civilians at least 16 years old who are unemployed and tried to find a job within the prior four weeks. Danny has not tried to find a job in six weeks, so he would not be included in the computation of the unemployment rate.

AACSB: Analytic Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

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132. Larry and Moe are having an argument. Larry believes that over the past year, the economy is experiencing rapid inflation, while Moe says that the economy actually experienced disinflation during this period. The easiest way for Larry and Moe to settle their argument is to look at GDP figures for the past year.

FALSE

GDP measures the market value of final goods produced in a country in a given year. An increase in GDP may be due to inflation, or it may be due to an increase in the production of final goods, or it may be due to a combination of both of these factors. Thus, looking at GDP by itself does not provide a clear answer to what has happened to prices. Larry and Moe would be better served by looking at the changes in price indexes such as the CPI. The CPI tracks movements in the average level of prices for a market basket of consumer goods over time.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

133. Maureen is the office manager of a service company. She recently approved the installation of new computers and office equipment for all workers in her office. If Maureen's company is like most service companies, she will probably see a big jump in the productivity figures reported for workers in her office.

FALSE

In the service sector, improvements in technology and in the number of computers and other types of machinery used by workers often improve the quality of the service, but not the output per worker. Thus, the productivity figures are unlikely to change very much.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

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134. The government of Velovia made progress in its efforts to bring rapid inflation under control. Although prices are still rising, the rate of increase has slowed considerably. This suggests that Velovia is experiencing disinflation.

TRUE

Disinflation occurs when the rate of inflation is slowing.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

135. The nation of Desperia is reporting a significant decline in GDP for four consecutive years, with no relief in sight. With unemployment at record levels and businesses failing faster than at any time in the past century, Desperia is likely experiencing a depression.

TRUE

An economy is in a recession if its GDP declines for 2 consecutive quarters (six months). A depression is a severe recession. Since Desperia's GDP has shown decline for four years and other economic conditions (the unemployment rate and the number of business failures) are described as being the worst the nation has experienced in the past century, it appears that the definition of a depression is satisfied.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

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136. Yesterday, Casey received a cable company ad for bundled TV, telephone, and Internet service that cost appreciably more than what she is currently paying. At the same time, she received a notice from her utility company that summer rates would be increasing. Her schoolbooks are costing almost twice what they cost last year, and yesterday, gasoline cost her 30 cents more per gallon than it did last week. As she ponders the situation, she can't help but wonder how prices could be rising when so many people have lost their jobs and are cutting back on expenditures. She is certain that this situation characterizes her economics professor's description of *stagflation*.

TRUE

Stagflation is the term used to describe the situation where the economy is slowing, yet prices are still rising. In the situation described here, Casey is experiencing rising prices and a rising unemployment rate.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

137. Sam is a recent college graduate with a lot of *firsts*: First professional job, first new car, first apartment, and first time making all of his own financial decisions. As he works on his monthly budget, he can't help but wonder why he is barely making ends meet. Each month, it takes his entire paycheck to pay his rent, his car payment, and buy food. Last month, he told his parents, "I'm sure I had more money when I was a starving student!" You recently learned about key economic indicators in your business class. You inform Sam that his problems are caused by severe deflation and lack of demand for products and services.

FALSE

Sam is describing a higher than normal rate of *inflation*. Prices are rising fast, and consumers are unable to purchase the same amount of goods and services with the same number of dollars they used for similar purchases in the recent past. *Deflation* is falling prices. In this latter environment, consumers can purchase more with less money.

AACSB: Knowledge Application

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Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

138. Robin just graduated from college and is seeking her first job. She received a degree in engineering at a prestigious university. Robin has several leads and has heard that the market for engineers is very strong, so she is convinced that she should locate a good job in the near future. Robin's current situation is an example of structural unemployment.

FALSE

Structural unemployment is caused by problems such as mismatches between the skills workers have and the skills employers need due to restructuring within an industry. The description of Robin's situation is not consistent with this type of unemployment. Her situation is really an example of frictional unemployment. This type of unemployment refers to workers who have quit their job for personal reasons or those who are entering the labor market after being out of it to go to school or to raise a family.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

139. Fiscal policy refers to the federal government's efforts to keep the economy stable by controlling the amount of money in circulation.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy

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140. Fiscal policy involves the federal government's efforts to stabilize the economy by increasing or decreasing taxes and/or government spending.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy

141. When the government attempts to stabilize the economy by changing taxes or government expenditures, it is using fiscal policy.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy

142. The national deficit is the difference between our nation's exports and its imports.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy

143. The size of the national debt increases when the federal government runs a deficit.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember

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Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy

144. The U.S. national debt equals the sum of all recorded years of deficits.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy

145. The Federal Reserve Board is responsible for controlling the money supply.

TRUE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy

146. Monetary policy is directly under the control of the U.S. Department of the Treasury.

FALSE

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy

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147. One of the major ways the Fed influences economic conditions is through its control of interest rates.

TRUE

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy

148. High tax rates that put money into the government's coffers tend to slow spending, and ultimately slow the economy.

TRUE
Fiscal policy refers to the federal government's efforts to keep the economy stable by increasing or decreasing taxes or government spending. When the government raises taxes, the result is a tightening of consumer and business spending, which has the tendency of slowing the economy. This draws money away from the private sector.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy

149. If the government wants to jump-start the economy resulting in more consumer spending, it will raise taxes.

FALSE
Fiscal policy refers to the federal government's efforts to keep the economy stable by increasing or decreasing taxes or government spending. When the government raises taxes, the result is a tightening of consumer and business spending, which has the tendency of slowing the economy. This draws money away from the private sector.

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Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy

150. Monetary policy is implemented to ease the up and down swings of business cycles, while fiscal policy is implemented to create swings when the cycle is stalled in an economic boom.

FALSE

Fiscal and monetary policies have the purpose of bringing stability to the nation's economy. Fiscal policy involves government spending by raising or lowering taxes; monetary policy is enacted by the Fed (Federal Reserve Board) by raising or lowering interest rates.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy

151. If the national debt is $14 trillion, the national deficit will be considerably higher.

FALSE

The national deficit is the amount the government has overspent in one year's time. The national debt is the total of all yearly deficits, over time.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy

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152. Government spending on defense decreases the national deficit.

FALSE

Any government spending, including money spent on defense, increases the national deficit because it decreases the amount of revenue that the government has collected.

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Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy

153. To jump-start the economy, the Fed is likely to lower interest rates, in order to encourage individuals and businesses to spend money.

TRUE

The Fed meets once each month to review economic growth and make decisions with respect to raising or lowering interest rates. If the Fed lowers interest rates, it is trying to encourage individuals and businesses to borrow more money and spend it in ways that improve their quality of life, as well as increase the GDP. If the Fed raises interest rates, it is trying to discourage individuals and businesses from borrowing money, so as to slow down the economy.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy

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154. The best way to avoid national budget deficits is to increase our exports and decrease our imports.

FALSE

Budget deficits are not the same thing as trade deficits. A federal budget deficit arises in a given fiscal year if government spending exceeds tax revenues.

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Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy

155. In order to restrict spending by businesses and households, the Fed would take measures designed to lower interest rates.

FALSE

The Fed conducts monetary policy by managing the money supply and interest rates. Lower interest rates would reduce the cost of borrowing, thus leading to more spending. If the Fed wanted to restrict spending, it would be more likely to raise interest rates.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy

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156. Senator Spendital made a speech deploring the continuous deficits in the federal budget. He is proposing an increase in tax rates to raise more revenue for the government and thus gradually reduce the size of the national debt over a period of several years. The strategy Senator Spendital is proposing is a common type of monetary policy.

FALSE

When the government changes the level of taxes and government expenditures, its actions are referred to as fiscal policy.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy

157. A professor of economics at a prominent university recently urged government policy makers to cut taxes and increase government spending in order to pull the economy out of its current downturn. The policy measures called for by the professor are examples of fiscal policy.

TRUE

Fiscal policy involves changes in government spending and taxes to help stabilize the economy.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy

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158. Joe and Tess McGreen are purchasing their first home in Durham, North Carolina. They are seeking pre-qualification on a home loan. The unemployment rate for North Carolina is 10.2% and GDP is declining. Chances are pretty good that the Fed will raise interest rates in order to loosen the supply of money, resulting in a more expensive loan for Joe and Tess.

FALSE

A 10.2% unemployment rate, as well as declining GDP, are good indications that the economy is in a recession, and/or downward business cycle. In a recessionary climate, the Fed is likely to lower interest rates to induce spending. Joe and Tess may be able to qualify for a lower interest rate.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy

159. Katie owns a nail salon. She needs to update her shop with new customer massage chairs and work stations for her technicians. If the Fed were to lower interest rates by 1.5 percentage points, at the same time that the government increased the tax rate by 1.5%, she could immediately determine that updating her shop would not increase or decrease her financial position.

FALSE

If Katie applies and gets a loan to update her shop, she will have to pay a percentage annually on the principle of the loan. We do not know the loan amount, so we do not know the dollar amount of deductible loan expense. Taxes are paid on profits, after we deduct all applicable expenses. Since we do not know the deductible dollar amount of interest expense, nor do we know the dollar amount that Katie will pay in taxes, we are unable to determine if the percentage increase or decrease in taxes would be a wash.

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Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 3 Hard

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Topic: Fiscal and Monetary Policy

160. The Fed is concerned that the economy is growing too rapidly. Given these concerns, it is likely to pursue policies to restrict the supply of money and raise interest rates.

TRUE

The Fed is in charge of monetary policy. This involves controlling the supply of money and interest rates. When the Fed wants to slow down the economy it will restrict the money supply and increase interest rates to reduce the amount of borrowing.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy

161. Nick wants to buy a new car, and is planning to borrow the money for his purchase from a bank. He read in the newspapers that the Federal Reserve is likely to implement policies in the next few weeks that are designed to stimulate the economy. Nick would probably get a lower interest rate on his car loan if he waits until after the Fed implements its new policies.

TRUE

The Fed usually pursues policies to decrease interest rates when it wants to stimulate the economy. If Nick wants a low interest rate on his car loan, he should wait until the Fed acts to stimulate the economy.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy

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Multiple Choice Questions

162. Economics is the study of how a society _____.

A. invests wisely in the stock market
B. employs resources to produce goods and services and distribute them among competing groups and individuals
C. employs statistical techniques to make predictions about the evolution of society over the long run
D. governs itself for the good of its citizens

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

163. _____ is the study of how a society employs its limited resources to produce goods and services and how it distributes them among competing groups and individuals.

A. Economics
B. Capitalism
C. Marketing
D. Socialism

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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164. _____ studies the operation of a nation's economy as a whole.

A. Microeconomics
B. Socioeconomics
C. Econometrics
D. Macroeconomics

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

165. _____ looks at the behavior of individual people and organizations in specific markets.

A. Macroeconomics
B. Finite economics
C. Microeconomics
D. Nanoeconomics

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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166. Resource development is:

A. the study of how society chooses to employ resources to produce goods and services and distribute them for consumption among various competing groups and individuals.
B. the study of how to increase the amount of available resources and create conditions that will make better use of these resources.
C. the part of economics that looks at the operation of a nation's economy as a whole.
D. the part of economics that looks at particular markets.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

167. The study of how to increase the amount of available resources and create conditions that will make better use of these resources is known as:

A. human resource management
B. microeconomics
C. econology
D. resource development

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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168. Economist Thomas Malthus believed that _____ would limit economic progress.

A. depletion of gold reserves
B. overpopulation
C. the tendency of governments to levy high tax rates
D. the inability of workers in developed nations to compete against cheap foreign labor

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

169. Neo-Malthusians believe that the solution to poverty is:

A. increasing the world population.
B. increasing taxes on the rich and increasing social programs.
C. birth control.
D. educating poor people.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

170. A key to economic growth and development is to:

A. locate more deposits of gold and other precious metals.
B. emphasize a fair and equitable distribution of income.
C. provide people with better education.
D. allow government planning to guide the allocation of resources.

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

171. _____ is considered by some to be the father of modern economics.

A. John Maynard Keynes
B. Adam Smith
C. Thomas Carlyle
D. Thomas Malthus

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

172. Which of the following is an important premise of Smith's conclusions about economic prosperity?

A. Individual freedom is necessary if a society is to prosper.
B. Understanding the concept of survival of the fittest will lead to prosperity.
C. Determining what motivates people will lead to prosperity.
D. Command economies and structured markets must be in place before we can work toward prosperity.

Smith believed that freedom was vital to the survival of any economy, especially the freedom to own land or property and to keep the profits from working the land or running a business.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

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173. Which of the following would be a topic emphasized in a macroeconomics course?

A. Factors that determine how fast a nation's economy is growing.
B. How a firm decides the amount it will charge for one of its products.
C. How a consumer chooses which goods to buy.
D. The determinants of the wage rate for labor in the auto industry.

Macroeconomics is concerned with the performance of a nation's economy as a whole.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

174. Which of the following would be a topic emphasized in a microeconomics class?

A. How a nation's GDP is computed.
B. The reasons why the unemployment rate for the economy is rising or falling.
C. How market conditions determine the price of a specific product.
D. How the government can use fiscal and monetary policies to stabilize the economy.

Microeconomics is concerned with the behavior and performance of people and organizations in particular markets.

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Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

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175. The main goal of resource development is to find ways to:

A. increase the amount of resources and create conditions that will make better use of those resources.
B. allocate existing resources more efficiently among competing uses.
C. find the right balance between policies that promote economic growth and policies designed to promote other goals such as a fair distribution of income.
D. promote the central planning of resource utilization so that resources can be allocated to the uses that will benefit society the most.

Resource development is the study of how to increase resources and to create the conditions that will make better use of those resources.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

176. Thomas Malthus was pessimistic about the ability of a society to achieve high standards of living for most of its citizens because he believed that:

A. government has a natural tendency to run deficits that would eventually bankrupt a nation.
B. significant population growth would result in shortages of food and resources.
C. owners of businesses would deliberately exploit their employees in an attempt to earn greater profits, and this would ultimately lead to a worker's revolt.
D. high tax rates would eventually undermine people's incentives to work hard and create wealth.

Thomas Malthus believed that human population would continue to grow until the economy was unable to support any more people. This would result in a situation where the standard of living of most people would be at a subsistence level.

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Blooms: Understand
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

177. Economics was known as the "Dismal Science" because:

A. too many people would result in food shortages and shortages of other resources.
B. it was a very complex area of study based on mathematics.
C. the world population was growing slower than expected in the 1700s, leading economists to call it a dismal period of time.
D. there were too many old people and not enough young people to care for them.

Thomas Carlyle called economics the "dismal science" because of the argument made by Thomas Malthus in the late 1700s and early 1800s that there would soon be too many people and not enough food and other resources to support them.

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Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

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178. How is it that people working in their own self-interest produce goods, services, and wealth for others?

A. By taking advantage of a vast supply of labor, people working in their own self-interest could hire others at very low wages.

B. In order to earn money and produce goods that improve lives, self-directed gain would provide jobs, and subsequently wages for others.

C. The government pays entrepreneurs in the U.S. to produce goods, services, and wealth for others.

D. Entrepreneurs tend to include themselves in a group of people who need charitable support. A portion of the entrepreneur's profit (as required by law) goes to the charity of one's choice to support the less fortunate.

The way people can become wealthy by their own efforts is to sell what they produce to others. As the business grows, labor is hired to produce more. This is the "invisible hand" concept that turns self-directed gain into social and economic benefits for all.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

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Understanding Business 11th edition Nickels Test Bank

179. Adam Smith believed that countries would prosper if businesspeople were free to start and run their own businesses. Businesspeople would make a profit by providing the goods, services and ideas that others in the economy wanted, and they would hire others to help increase those profits, leading to social and economics benefits for many. This idea was called the _____.

A. kinked demand theory
B. invisible hand
C. spending multiplier
D. demand accelerator

Adam Smith believed that self-interest would lead profit-seeking entrepreneurs to produce goods and services wanted by consumers, and to hire others to grow their businesses. This would prove to be social and economic gain for the entrepreneur and for others.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

180. Sue is a gifted cook. She plans to open a restaurant in which she will be the head chef. Sue is willing to work long hours because she believes that her culinary talents and hard work will allow her business to succeed and earn her sizeable profits. Sue's efforts are most consistent with the economic theory developed by:

A. Thomas Malthus.
B. Karl Marx.
C. Adam Smith.
D. David Ricardo.

In Smith's view, if businesspeople are allowed to follow their own self-interest, they will be motivated to work hard and provide needed products that increase the wealth of society as a whole.

AACSB: Knowledge Application

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Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

181. Jake considers himself to be a follower of Thomas Malthus. Which of the following statements would Jake be most likely to make?

A. The key to economic growth is to keep taxes and government regulations to a minimum.
B. Command economies are more likely to encourage economic growth than free-market economies.
C. Allowing people to follow their self-interest is the best way to generate economic growth and prosperity.
D. A society will not experience sustainable economic progress unless it accepts the need to limit population growth.

Thomas Malthus worried that overpopulation would make long term economic prosperity impossible. Followers of Malthus today still believe that there are too many people and emphasize birth control as the way to help raise standards of living.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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Understanding Business 11th edition Nickels Test Bank

182. Which of the following statements would a follower of Adam Smith most likely make?

A. The federal government should use its ability to spend and tax to guide the decisions of businesses and consumers.
B. Market economies are flawed because they put too much emphasis on economic growth and not enough on environmental problems.
C. Overpopulation is the main danger confronting modern economies.
D. If people are given the freedom to follow their own interests, theoretically their efforts will lead to economic growth that benefits society as a whole.

Adam Smith believed that self-interest could motivate people to work hard and start businesses that created jobs and wealth that benefited society as a whole. This was a basic message of Smith's famous invisible hand principle.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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183. Fourteen years ago, Sergio noticed that a lot of people who bought personal computers did not know much about how to use them and frequently suffered system crashes and other aggravations. He decided he could earn a nice profit by starting a consulting business to help other people overcome their computer woes. Although the business struggled at first, it has experienced a good deal of success for the past five years. Sergio has many satisfied customers, and the business has grown to the point where he now employs several workers. Sergio's experience is an example of:

A. socialism at work.
B. the principle of comparative advantage.
C. the invisible hand concept.
D. the multiplier principle.

The invisible hand concept suggests that people who seek to serve their own interests can produce products and create jobs that benefit others in society.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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184. For many years, Congressman Ricardo Perez has called for more government regulation of business. "After all," the Congressman said recently, "businesspeople are out to make a profit, not to create jobs or serve their customers. The government must pass more laws to require businesses to take the interests of consumers and workers into account." From these comments, it is clear that Congressman Perez:

A. agrees with the ideas of Thomas Malthus.
B. does not accept the "invisible hand" idea brought forth by Adam Smith.
C. is unaware of the fact that most businesses in the United States are owned by the government.
D. does not realize that government regulation is already the main determinant of business decisions in capitalist economies.

The concept of the invisible hand, developed by Adam Smith in his famous book, *The Nature and Causes of the Wealth of Nations*, says that in an effort to earn a profit, entrepreneurs produce goods that satisfy the wants of consumers and create jobs for workers. It is clear from his statements that Congressman Perez does not accept this philosophy.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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185. In the boxed material "Making Ethical Decisions," the textbook describes corruption practices in developing nations. These practices include payoffs to government officials in order to get an edge on competing better in one's industry. Which of the following statements best describes the ethical message explained in this box?

A. Bribery is commonplace and necessary in socialistic nations.
B. Bribery is acceptable if everyone is doing it. As a businessperson, you have to find the right balance in whatever nation you want to sell your products.
C. Campaign contributions are not considered bribes, particularly if everyone in your industry is doing the same.
D. Ethics plays an important role in a capitalistic system and in the freedom to compete. Corruption can hinder economic growth.

Corruption can destroy a system that champions capitalism. One of the foundations of this system is the right to compete. Corruption and bribes jeopardize the competitive field. A capitalistic system will thrive with checks and balances that stress the ethical behavior of participants.

AACSB: Ethics
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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186. According to the invisible hand concept, the best way for a society to encourage the creation of jobs and the production of the products most wanted by consumers would be to:

A. permit government-owned industries, such as telecommunications, transportation, and energy, and operate these firms as nonprofit organizations.
B. allow private ownership of businesses, but make use of extensive regulation to force businesses to behave in a socially desirable way.
C. allow entrepreneurs personal freedom to follow their own self-interest.
D. impose high taxes on individuals, and use the revenue to subsidize businesses to encourage them to produce the maximum rate of output.

Personal freedom is an important premise of wealth creation. Entrepreneurs, acting in their own self-interest, need the personal freedom to own property and keep the earnings from their hard work.

AACSB: Knowledge Application
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Blooms: Apply
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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187. A young couple living in rural west-central Missouri heard about the closing of a local grocery store. Although a small operation, it served a small community that would now have to travel another 20 miles to the nearest grocery store. With help from a local realtor and banker, the couple purchased the store, remodeled it, and re-opened it. As new storeowners, they had to carefully watch cash flow. As their customer base began to grow, they began offering hot food, and hired others to help with the operation. The economic benefit created in this story is called:

A. an economic intervention.
B. an economic crisis control.
C. the invisible hand.
D. the deliberate process.

Personal freedom is an important premise of wealth creation. Entrepreneurs, acting in their own self-interest need the personal freedom to own property and keep the earning from their hard work.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

188. _____ is the name of a free-market economic system in which most of the factors of production and distribution—such as land, factories, railroads, and stores—are owned by individuals.

A. Socialism
B. Capitalism
C. Communism
D. Marginalism

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember

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Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

189. Under capitalism:

A. most of the means of production and distribution are privately owned and operated for profit.
B. the primary function of the government is to distribute wealth more evenly.
C. utilities, health care, education, and other important services are operated by the government.
D. markets operate to carry out the decisions made by central planners.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

190. The foundation of the U.S. economic system is based on:

A. capitalism.
B. the ideas of Thomas Malthus.
C. equality.
D. the saying, "from each according to ability, to each according to need."

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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191. Which of the following is a basic right under capitalism?

A. Freedom of collusion.
B. Freedom from taxation.
C. The right to vote.
D. The right to compete.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

192. The freedom of people to decide where they want to work and live and what they want to buy or sell are basic capitalist rights under:

A. eminent domain.
B. freedom of expression.
C. freedom of choice.
D. freedom of competition.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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193. The freedom of people to buy, sell, and use land, buildings, machinery, and inventions are basic capitalist rights under:

A. the right to own private property.
B. freedom of expression.
C. freedom of choice.
D. freedom of competition.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

194. A free market is one in which decisions about what to produce and in what quantities are made by:

A. the Fed
B. the community
C. the market
D. the Congress

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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195. In a free-market economic system, the mechanism of _____ is the key determinant used to signal to producers what to produce and how much to produce.

A. the market curve
B. trend
C. price
D. quantity

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

196. The quantity of a good or service that producers are willing to sell at different prices during a specific time period is known as the:

A. supply of that product or service.
B. demand for that product or service.
C. elasticity of that product or service.
D. utility of that product or service.

AACSB: Reflective Thinking
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Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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197. A simple supply curve shows that an increase in the price of a good will cause the quantity supplied to:

A. decrease.
B. increase.
C. remain constant.
D. fluctuate randomly around its equilibrium value.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

198. A simple supply curve shows a relationship between the:

A. amount of labor a firm hires and the amount of output it can produce.
B. amount of time required to produce a good and the relevant production costs.
C. price of a good and the quantity of that good sellers are willing to offer for sale at a specific point in time.
D. amount of a good a firm produces and the amount demanded by consumers.

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Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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199. A(n) _____ curve shows the relationship between the price of a good and the quantity of that good people are willing and able to buy in a given time period.

A. demand
B. supply
C. utility
D. equilibrium

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

200. A typical demand curve shows that:

A. as people earn more income, they buy more of a good.
B. as supply increases, the amount purchased decreases.
C. people tend to buy more of a good than they really want.
D. people tend to buy more of a good when its price decreases.

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Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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201. When the supply curve and demand curve for a particular good are shown together on a single graph, the point at which the two curves intersect identifies the:

A. total profit earned by producers.
B. total amount of labor that will be employed in that market.
C. amount of time it takes to bring together the buyers and sellers of the good.
D. equilibrium price of the good.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

202. When prices are free to adjust over time, in the long run, the market price of a good tends to:

A. rise above the equilibrium price in the long run.
B. equal the equilibrium price.
C. fall below the equilibrium price in the long run.
D. have no specific relationship to the equilibrium price.

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Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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203. If a shortage exists for a good in a free-market economy, the:

A. price of the good will rise.
B. price of the good will fall.
C. government will order suppliers to increase the production of that good.
D. government must establish a rationing system to make sure that the good is fairly distributed.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

204. _____ is the market situation in which there are many sellers in a market and no seller is large enough to dictate the price of a product.

A. Oligopoly
B. Monopolistic competition
C. Perfect competition
D. Microeconomic competition

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Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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205. _____ exists when a large number of firms produce goods that are similar but are perceived by buyers as being different.

A. Perfect competition
B. Monopolistic competition
C. Oligopoly
D. A monopoly

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

206. _____ exists when the entire supply of a good is controlled by a single seller.

A. Perfect competition
B. Oligopoly
C. Pure Capitalism
D. A monopoly

AACSB: Reflective Thinking
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Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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207. An oligopoly is a market that is characterized by:

A. one firm that totally dominates the supply of the product.
B. a large number of small firms all producing very similar products.
C. a few large sellers who dominate the market.
D. several small firms that compete primarily by differentiating their products.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

208. Which of the following statements about capitalism is the most accurate?

A. In capitalist economies, most resources are owned by the government.
B. A strength of capitalism is its ability to deal with environmental problems.
C. Capitalism is characterized by unequal distribution of wealth and income.
D. A drawback of capitalism is that people have little freedom to pursue their own goals.

One of the criticisms of capitalism is that it tends to result in unequal distribution of income and wealth.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

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209. When the market price of a good is below the equilibrium price, and all other determinants are unchanged:

A. the quantity demanded will exceed the quantity supplied.
B. the supply curve will be to the right of the demand curve.
C. a surplus will exist in the market.
D. the government will regulate the price of the good to ensure equilibrium is attained.

At the equilibrium price, quantity supplied equals quantity demanded. However, as price falls the quantity demanded of a product tends to increase, while the quantity supplied decreases. The result is that quantity demanded will exceed the quantity supplied when the market price is below the equilibrium price, so eventually a shortage will exist. Of course, the presence of a shortage will put upward pressure on prices, so that the market price will move toward the equilibrium price.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

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210. When the market price of a good is above its equilibrium value, and all other determinants are unchanged:

A. a shortage will exist in the market.
B. the quantity demanded will exceed the quantity supplied.
C. both the supply curve and the demand curve will shift to the right.
D. a surplus will exist in the market.

At equilibrium, the quantity demanded is equal to the quantity supplied. At higher prices, the quantity supplied is greater than the equilibrium quantity, while the quantity demanded is lower than the equilibrium quantity. Thus, a surplus will exist. Of course, this is a temporary situation. The presence of a surplus will put downward pressure on the market price and move it toward the equilibrium price.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

211. The markets for laundry detergents, soft drinks, and automobiles are dominated by just a few sellers. Economists would classify these markets as examples of:

A. monopolistic competition.
B. perfect competition.
C. oligopolies.
D. monopolies.

An oligopoly is a form of competition in which just a few sellers dominate a market. High initial investment tends to create a barrier to new competitors.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Explain what capitalism is and how free markets work.

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Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

212. In most large cities there are a large number of bakeries. These bakeries produce similar, but not identical, products. Some bakeries claim to have the best cheesecakes in town, while others brag about their cookies or specialty breads. The bakery market in a large city is an example of:

A. monopolistic competition.
B. perfect competition.
C. an oligopoly.
D. a monopoly.

Monopolistic competition is a market structure that is characterized by a large number of firms selling products that are very similar but are perceived by buyers as different.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

213. The presence of competition in free markets:

A. is undesirable because it results in unnecessary duplication of efforts.
B. usually results in better quality and lower prices.
C. is rare, since most markets eventually evolve into monopolies.
D. is undesirable, because one big firm can usually produce goods more efficiently than a large number of small firms.

In competitive markets, consumers have a choice of many firms. Competition puts pressure on each firm to provide a good quality product and to charge a fair price. Firms that fail to do so will lose their customers.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

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Learning Objective: 02-02 Explain what capitalism is and how free markets work.
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Topic: Economics and the Types of Economic Systems

214. One of the benefits of a free market is that:

A. businesses provide customers with quality products at fair prices.
B. businesses all make the same amount of profit.
C. businesses do better with more government regulation.
D. the government dictates the number of competitors there are in each industry.

One benefit of the free market is that it allows open competition between companies. Businesses must provide customers with quality products at fair prices with good service; otherwise, they will lose customers to those businesses that do provide good products, good prices, and good service.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

215. One of the greatest concerns associated with capitalism is that:

A. it is not very successful at creating wealth.
B. some businesspeople may let greed guide their behavior.
C. the amount of economic freedom enjoyed by consumers is very limited.
D. producers are unlikely to supply the goods and services that consumers value the most.

One of the dangers of free markets is that businesspeople and others may let greed dictate how they act. Some businesspeople have deceived the public about their products, and others have deceived their stockholders about the value of their stock. All this was done in order to increase the executives' personal assets.

AACSB: Ethics
Accessibility: Keyboard Navigation

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Blooms: Understand
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

216. According to the box, *Spotlight on Small Business*, when Florida's orange crop was significantly affected by a dry spell and gnat swarms:

A. the price of oranges rose as much as 16% throughout 2014.
B. the price of oranges fell as much as 16% throughout 2014.
C. the trees supplied more fruit than previous years and there was an orange juice surplus.
D. no changes in the sale of oranges and orange juice occurred.

When an unusually dry spell brought the wrath of gnats and an orange-killing disease, Florida's orange crop suffered a major disruption. The state experienced its worst crop since 1990 and prices rose as much as 16% throughout 2014.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

217. Patrick lives in a nation whose government embraces capitalism. He owns his own home and car, as well as his own business and building. Patrick maintains ownership due to:

A. eminent domain.
B. the Freedom of choice.
C. the right to own private property.
D. the freedom of competition.

One of the four basic rights enjoyed by people in a capitalist economy is the right to private property, which means that people are free to buy, sell, and use land, machinery and other property.

AACSB: Analytical Thinking

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Accessibility: Keyboard Navigation
Blooms: Analyze
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Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

218. The market price of apples is currently rising. In a free-market economy, the most likely explanation of this price change is that:

A. the government has decided to set a higher price so that firms competing in the market make an adequate profit.
B. there is a shortage in the market for apples.
C. the supply of money has decreased.
D. the equilibrium price is lower than the market price.

In a free market, prices are the result of the interaction of supply and demand. Market prices tend to rise when there is a shortage (i.e. when the quantity demanded exceeds the quantity supplied), and fall when there is a surplus (i.e. when quantity supplied exceeds quantity demanded).

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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219. A rare and scarce earth metal known as Neodymium is used in many consumer and military products including smartphones, smart bombs, laptop computer monitors, and electric/hybrid cars. In one year's time, the price of Neodymium has gone from $19/lb. to $129/lb. Under these circumstances and the fact that at least 1 kilogram is used in each electric car that is assembled, a graph of the supply and demand for this product would show:

A. the current price of Neodymium to be below the equilibrium price for this rare earth metal.
B. the price of Neodymium to be above the equilibrium price for this rare earth metal.
C. the price of Neodymium to reflect the adjustment of quantity demanded and quantity supplied.
D. consumer demand for a product such as electric cars to shift to the right indicating the desire to purchase the rare earth metal at any price.

When there is a shortage of a natural resource, it becomes scarce. The continued demand for the product will cause the price to increase, at least temporarily, above the equilibrium point where the quantity supplied and the quantity demanded constitute the market price: the price that sellers are willing to sell the product for, and buyers are willing to buy.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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220. The price of iPhones™ is falling. In a free-market economic system where everything else is equal, the most likely explanation is:

A. suppliers are not producing enough product.
B. sellers cannot keep up with market demand.
C. the government determined that the product was not worth the price tag that the producer was asking.
D. the product has competition at the equilibrium price.

If producers (sellers) are able to supply the amount of iPhones™ needed at the market price, but in the short run the price is falling, everything else being equal, the likely problem is added competition in the marketplace.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

221. Reality Entertainment, Inc., is a major producer of reality TV programming. The company faces fierce competition from three other major producers of similar shows. Together, Reality Entertainment and its three rivals control almost the entire reality TV programming. Their market environment is called:

A. an oligopoly.
B. a duopoly.
C. monopolistic competition.
D. a quasi-monopoly.

An oligopoly is a market structure in which a few sellers dominate the market.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-02 Explain what capitalism is and how free markets work.

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Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

222. On its website, Papa John's Pizza compares itself to the competition with the following message: "better ingredients, better pizza." The company wants to achieve:

A. product differentiation.
B. an equilibrium price.
C. a monopoly.
D. a perfectly competitive market.

Through tactics such as advertising, branding, and packaging, sellers try to convince buyers that similar products are different in some way. In a monopolistic competition market, successful product differentiation gives a seller a competitive advantage over others offering similar products.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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223. Which of the following statements most accurately identifies a limitation of the free-market economic system?

A. Free-market economies offer little opportunity for the poor to work their way out of poverty.
B. Free-market economies have been unable to create wealth as rapidly as other types of economic systems.
C. Free-market economies are generally plagued by shortages of needed consumer goods.
D. Free-market economies tend to result in unequal distribution of wealth.

Free-market economies have been a major factor in the creation of wealth enjoyed by many of the world's nations. This type of system gives people opportunities to work their way out of poverty. And the ability of market prices to adjust will help eliminate shortages (and surpluses) of goods and services. However, the incentive structure in a free-market economy naturally leads to inequality in the distribution of income and wealth.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

224. A major premise of a socialist system is:

A. to make sure that those that create wealth are allowed to keep that wealth.
B. to reduce the inequality in the distribution of wealth.
C. to create incentives to encourage entrepreneurs to create jobs and economic growth.
D. to keep tax rates extremely low so that businesses do not need to support government projects.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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225. A major benefit of socialism is the:

A. ability to stimulate rapid economic growth.
B. ability to keep taxes low.
C. emphasis on social equality.
D. emphasis on private enterprise instead of public ownership.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

226. Under the _____ system there is very little incentive to work hard or to produce quality goods or services.

A. capitalist
B. socialist
C. communist
D. mixed economy

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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227. Under the _____ system the number of choices in the market is directly related to government involvement in markets.

A. capitalist
B. socialist
C. communist
D. mixed economy

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

228. There are some restrictions on freedom of assembly and freedom of speech under a _____ system.

A. capitalist
B. socialist
C. mixed economy
D. communist

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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229. Brain drain has occurred in many socialistic nations because:

A. socialism encourages an unequal distribution of income, leaving many without medical and social services.
B. the government does little to protect the natural environment.
C. workers tend to have to work longer hours and receive fewer benefits under socialism.
D. tax rates on well-respected professionals such as doctors tend to be very high.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

230. Communism is an economic system in which:

A. the government and private citizens own equal shares of the economic resources.
B. almost all of the productive resources are owned by private businesses.
C. the government makes almost all of the major economic decisions.
D. individual consumers make all economic decisions.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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231. In recent years, countries with communist economic and political systems have:

A. enjoyed periods of great prosperity.
B. experienced severe economic depression.
C. placed even more importance on individual ownership of businesses.
D. grown very slowly, but have avoided the severe problems that have plagued some capitalist economies in Asia and Europe.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

232. The economic and political system in which the government owns almost all the major factors of production is called:

A. communism.
B. capitalism.
C. ethnocentrism.
D. socialism.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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233. Communist values are disappearing because:

A. people in communist nations are tired of the strong religious teachings of the system.
B. communist businesses have grown too quickly and they cannot keep up with demand.
C. communist leaders are all militaristic.
D. shortages abound due to the fact that the government cannot rely on good information.

Under a communist system, the government must guess about what people need. The economy does not have a mechanism such as price to help determine consumer demand for goods and services. People get more of some things, and often less of things that they want and need. There is no choice.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

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234. Which of the following statements provides the most accurate comparison of socialism and communism?

A. Under socialism, the government owns most businesses, while under communism the church owns most businesses.

B. Both socialism and communism want to achieve a more equal distribution of income and wealth, but under communism, the government takes more control over people's lives.

C. Socialism strives for an equal distribution of income but communism wants income to go primarily to those who own and operate private businesses.

D. Communism believes that the government should always strive to balance its budget, while socialism accepts deficit spending as the price of achieving true equality.

Both socialism and communism share the goal of achieving a more equal distribution of income. However, communism relies even more heavily on the government to achieve this goal than socialism. Under communism the government makes almost all major economic decisions, and is more intrusive in the lives of its citizens than is government in a socialist economy.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

235. Which of the following people would tend to favor a socialist economy?

A. John wants to live in a country with low marginal tax rates.

B. Robin wants to live in a country that encourages rapid economic growth.

C. Liz wants to live in a country with limited government regulation.

D. Fred prefers to live in a country that promotes social equality.

One benefit of socialism is its emphasis on social equality.

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Accessibility: Keyboard Navigation
Blooms: Understand

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Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

236. Which of the following people would tend to favor a communist economy?

A. John wants to live in a country with low marginal tax rates.
B. Robin wants to live in a country that encourages rapid economic growth.
C. Liz wants to live in a country where the government makes almost all of the economic decisions.
D. Fred prefers to live in a country with limited government regulation.

Communism is an economic and political system in which the state makes almost all economic decisions and owns almost all the major factors of production.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

237. One of the most significant problems faced by communist nations is:

A. inequality in the distribution of wealth and income.
B. severe inflationary pressures due to rapid economic growth.
C. too little government regulation of economic activity.
D. persistent shortages of basic goods such as food and clothing.

The problem with a system where all economic decisions are made by the state is that the government has no way of knowing what to produce. As a result, shortages of many items regularly develop.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-03 Compare socialism and communism.

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Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

238. Abby left her native land in Eastern Europe to become a nanny for a family in a western suburb of Chicago, Illinois. One of the benefits of her arrangement was that she could attend the community college near her family's residence. When she arrived at her new job, she experienced some immediate differences. Abby noted that public transportation in northern Illinois was limited and expensive, making it difficult to get to school. For a negligible fee, the government in her native country provided public transportation to everyone. The economic system in Abby's native country was more characteristic of _____.

A. pure capitalism
B. socialism
C. mercantilism
D. communism

Under socialism, businesses produce most of the wealth, but the government owns key businesses such as steel mills, coalmines and utilities. Socialism places a great deal of emphasis on social equality, and the governments of socialist countries generally implement a wide range of social programs designed to promote this equality.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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239. Jorge Martinez is a well-educated entrepreneur who operated a small business in his home country of Fiorentina. At the encouragement of his American relatives, Jorge recently immigrated to the United States and applied for U.S. citizenship. "In Fiorentina, tax rates were very high," Jorge complained. "The government used the taxes I paid to finance all sorts of social programs to help the less fortunate. While this is a noble goal, it has really undermined the profit incentive of individuals such as me. I really feel that these high taxes have stifled economic growth." Jorge's comments illustrate the reason many socialist countries are experiencing a(n):

A. antitrust problem.
B. depression.
C. brain drain.
D. budget surplus.

Socialist economies tend to be characterized by high marginal tax rates on bright and talented individuals such as doctors, engineers, lawyers, business owners, and gifted artists and performers. This has encouraged many of these individuals to immigrate to other countries, such as the United States, which have lower marginal tax rates. This problem is called the *brain drain*.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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240. Recently, Juanita Martinez, the Prime Minister of Vuvuzela, announced that she is standing behind the concept of state-owned utilities, public schools, and the communications industry of her nation. Although not all industry is owned and managed by the government, her ideas would lead one to believe that she has a preference for:

A. a capitalistic state
B. a socialistic state
C. a communistic state
D. a nationalistic state

A nation whose government owns several but not all important industries is operating under the political system known as socialism. Usually the utility companies, telecommunications companies, and broadcasting companies are among those owned by the government.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

241. Today, the economic systems of most nations could most accurately be classified as:

A. pure capitalism.
B. pure socialism.
C. command economies.
D. mixed economies.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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242. Both socialism and communism are variations of:

A. command economies.
B. competitive economies.
C. free-market economies.
D. plutocratic systems.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

243. A major trend in the world today is that:

A. free-market economies are moving more toward socialism and socialist economies are moving more toward capitalism.
B. productivity in the service sector is increasing much more rapidly than productivity in agriculture and manufacturing.
C. governments in socialist economies are increasing their use of social programs and relying on higher tax rates to finance these programs.
D. governments in countries with capitalist economies are paying less attention to environmental concerns and issues involving social equality.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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244. A command economic system is characterized by:

A. reliance on the forces of supply and demand to determine what is produced.
B. reliance on the government to determine what is produced and who gets the output.
C. an extremely rapid rate of economic growth.
D. freedom of choice and freedom of competition.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

245. The social and economic goals of _____ include private ownership of land and business.

A. capitalism
B. socialism
C. communism
D. a mixed economy

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 1 Easy
Topic: Economics and the Types of Economic Systems

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246. During the recent recession, the administrations of Presidents George W. Bush and Barack Obama flooded several banking, financial services, and insurance firms with government funds in exchange (at least temporarily) for government ownership rights. The unprecedented move signaled the government's concern that the global banking system might collapse if these firms ended up in bankruptcy. The decision for active government involvement in the operations of these firms demonstrates:

A. the unforgiving nature of capitalism.
B. the desire for more individuals in the U.S. to live under a socialist system.
C. the trend toward mostly capitalist nations to move toward socialism.
D. the freedoms the U.S. government has under capitalism.

The trend is clearly toward more mixed economies, even in the United States. Socialist nations are taking on more capitalist perspectives and capitalist nations are adopting some socialist principles.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

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247. As the term "global" becomes "local," and as we see more opportunities to compete in the global market,

A. the long-term trend is for most nations to operate as mixed economies.
B. disagreements about the best economic system to embrace will cause many nations to close their doors to outside commerce.
C. the only industries that governments will want to own are the ones that are profitable.
D. the forecast is for socialist nations to trend toward communism (Cuba is the example) and for capitalist nations to trend toward socialism.

The trend in the global economy is toward mixed economies since neither free-market nor command economies have resulted in optimal economic conditions.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

248. According to the *Reaching Beyond Our Borders* box, over the last decade six of the world's 10 fastest-growing countries were:

A. Asian.
B. African.
C. South American.
D. European.

A booming commodities market along with expanding economies has led to unprecedented growth in Africa. Over the last decade, six of the world's 10 fastest-growing countries were African. Africa has even outpaced the growth of East Asia.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-04 Analyze the trend toward mixed economies.

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Level of Difficulty: 2 Medium
Topic: Economics and the Types of Economic Systems

249. Over the years, the government of Montivia has focused on implementing programs that promote equality. In the short term, though, Montivia legislators are concerned about the very slow rate of growth that has plagued its national economy. In order to address this problem, the government is likely to:

A. take control of more major industries.
B. reduce taxes and cut back on some social programs.
C. make sure to balance its budget.
D. avoid the use of fiscal policies and reduce the supply of money in circulation.

The government of Montivia has emphasized achieving equality, but now wants to encourage more growth. In order to encourage faster growth, countries typically adopt a more market-oriented approach by cutting back on social programs and reducing taxes.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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250. In an effort to promote rapid growth, the government of Goldinia has kept taxes low, done little to regulate business activities, and implemented only modest social programs. The government is now facing political pressure to do more to clean up the environment and to reduce the inequalities of income and wealth. Which of the following statements is most accurate? Goldinia's government is currently taking:

A. a purely capitalist approach to achieve its economic goals, and is likely to continue doing so in the future.
B. a purely socialist approach to achieve its economics goals, and is likely to continue doing so in the future.
C. a predominately socialist approach to achieving economic goals, but the current pressures it faces suggest it is likely to adopt a more capitalist approach in the future.
D. a predominately capitalist approach toward achieving economic goals, but the current pressures it faces suggest it is likely to adopt a more socialist approach in the future.

Goldinia's low taxes and limited government regulation are consistent with capitalism. However, the political pressures to implement policies that will deal with environmental problems and promote social equality suggest that the government may adopt a more socialist approach in the future. This movement toward mixed economic systems is a major trend in the world economy.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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251. The prime minister of the nation of Urbania has called for Urbania's legislature to enact new legislation designed to shift his country away from socialism toward a more capitalistic system. The Prime Minister acknowledges that such a radical change will entail some hardships, and that some citizens will be unhappy with the changes. The most likely source of dissatisfaction with a move toward capitalism is:

A. decrease in wealth.
B. people will have less economic freedom.
C. tax rates will have to increase.
D. a trend toward unequal distribution of wealth.

Capitalism tends to encourage the creation of wealth, and allows people a great deal of economic freedom. Moreover, tax rates tend to be lower in capitalist economies than in socialist economies. However, capitalism does tend to result in a more unequal distribution of income and wealth.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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252. The National Coalition on Healthcare Reform reports that nearly 18% of the U.S. population under the age of 65 is without health care. If this advocacy group succeeds in convincing the current administration and Congress to vote for basic health care for everyone, which of the following is likely to occur?

A. More rapid economic growth.
B. Higher taxes than in past years.
C. Increasing reliance on markets to determine economic outcomes.
D. An increase in the number of insurance companies.

Socialism attempts to create more equality—in part by relying on government programs financed by high taxes to help the less fortunate—in this case, the reportedly 18% of Americans who are going with adequate health care because they cannot afford it. In order for the government to subsidize their health care, it will most likely have to increase taxes to pay for it.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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253. Several years ago, the nation of Florentina had a government-owned telecommunication system that lagged far behind other nations. In several of its rural areas, there was only one phone for an entire village of people. Government taxes collected for the purpose of maintaining the telephone system were very meager, so the notion of expanding service was almost impossible. The government of Florentina decided to sell the phone company to a private firm. The private firm expanded rapidly. It reported that even poor consumers were willing to pay for a private phone line. This government decision and subsequent sale was:

A. a move toward nationalism.
B. a move toward communism.
C. a move toward socialism.
D. a move toward capitalism.

In order to generate business growth, countries that were predominantly under a socialist system have trended toward capitalism, while countries that were predominantly capitalistic have added social and government sponsored programs.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-04 Analyze the trend toward mixed economies.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

254. The U.S. economic system relies on:

A. the private sector to measure its economic well being.
B. industries that produce capital equipment to determine how well things are going.
C. frictional unemployment statistics as the sole measure of economic health.
D. key economic indicators such as GDP, to measure economic progress.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy

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Understanding Business 11th edition Nickels Test Bank

Topic: Key Economic Indicators and How they Affect Business

255. The total value of final goods and services produced within a nation's borders in a given year is known as that nation's:

A. aggregate production quota.
B. aggregate domestic output.
C. index of aggregate economic output.
D. gross domestic product.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

256. Three important economic indicators of the United States are the unemployment rate, the price indices, and the:

A. debt to equity ratio (DER).
B. gross resource utilization index (GRUI).
C. gross domestic product (GDP).
D. index of capital formation.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

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257. The four basic types of unemployment are frictional, structural, seasonal, and:

A. cyclical.
B. procedural.
C. industrial.
D. traditional.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

258. _____ unemployment refers to persons who purposefully quit their jobs and have not yet found a new job.

A. Frictional
B. Structural
C. Cyclical
D. Seasonal

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Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

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259. _____ unemployment refers to unemployment caused by the restructuring of firms or by a mismatch between the skills of job seekers and the requirements of available jobs.

A. Frictional
B. Structural
C. Cyclical
D. Seasonal

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

260. _____ unemployment refers to loss of jobs due to a recession or a similar downturn in the economy.

A. Frictional
B. Structural
C. Cyclical
D. Seasonal

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

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261. _____ unemployment results when the demand for labor varies during the year.

A. Frictional
B. Structural
C. Cyclical
D. Seasonal

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Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

262. The _____ is a statistic used to compute the pace of inflation or deflation.

A. consumer price index
B. gross domestic product
C. index of leading indicators
D. index of inflationary trends

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

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263. The measure used to report price changes at the wholesale level is the:

A. gross domestic product (GDP).
B. consumer price index (CPI).
C. wholesale price index (WPI).
D. producer price index (PPI).

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

264. _____ refers to a general rise in the price level of goods and services over time.

A. Acceleration
B. Recession
C. Inflation
D. Escalation

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Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
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265. _____ is a condition in which the price increases are slowing.

A. Deflation
B. Disinflation
C. Stagflation
D. Uniflation

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Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

266. _____ is a condition in which the average level of prices is actually falling.

A. Deflation
B. Disinflation
C. Stagflation
D. Uniflation

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

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267. A _____ is a very severe recession that is usually accompanied by deflation.

A. stagflation
B. retraction
C. depression
D. dissolution

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Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

268. In recent years, U.S. manufacturing sector has experienced _____ productivity.

A. rising
B. relatively stable
C. falling slowly
D. falling very rapidly

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 1 Easy
Topic: Key Economic Indicators and How they Affect Business

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269. The next wave of marketable innovations may involve new ways to produce and conserve energy. If we can turn new technology into marketable products and services that produce energy to run our businesses and homes, the U.S. could see a surge in output of goods and services. The Department of Economic Development would document this surge by measuring the ____.

A. gross domestic product
B. consumer price index
C. consumer marginal index
D. number of workers who are frictionally employed

GDP is the measure of the value of a nation's total output of final goods and services over a given year.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business

270. One reason the CPI is monitored very closely by government, businesses, and workers is that:

A. it indicates whether we are running a budget surplus or a deficit.
B. some wages, interest rates, tax rates, and government benefits are tied to changes in the value of the CPI.
C. it is the best measure of worker productivity in the service sector.
D. the gross domestic product is computed from the reported increases in the CPI.

As a measure of inflation, the CPI is an index which is often used to determine cost of living increases in wages, salaries, interest rates, and other payments. Income tax brackets and some government benefits, such as Social Security payments, are also adjusted when the CPI changes.

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Accessibility: Keyboard Navigation
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Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business

271. _____ in the service sector has not shown the significant improvement that it has in the manufacturing sector. There are significant advances in the quality of service, but workers in this sector are unable to increase the number of persons served in a given time period.

A. The CPI
B. Technology
C. Productivity
D. The growth

Productivity is a measure of how much output a worker can produce in a given time period.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business

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272. Which of the following indicators provides the clearest indication that an economy is experiencing deflation?

A. A decrease in the unemployment rate.
B. A decrease in GDP.
C. An increase in the PPI.
D. A decrease in the CPI.

Deflation refers to a situation where the average level of prices is actually declining. The CPI is an index of consumer prices. Thus a decline in the CPI is a clear indication that prices are declining.

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Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 2 Medium
Topic: Key Economic Indicators and How they Affect Business

273. A collapse in Buldovia's banking system eventually led to companies unable to borrow money to run their businesses. Firms terminated employees. These circumstances cut into consumers' purchasing power, causing a severe decline in the prices of goods and services, better known as ____.

A. disinflation
B. deflation
C. contra inflation
D. overproduction

Deflation means that prices are actually declining. Disinflation occurs when the rate of increase in prices is slowing down, i.e., the inflation rate is declining.

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Accessibility: Keyboard Navigation
Blooms: Apply

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Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

274. Which of the following strategies may have a net effect on inflation?

A. Decreasing interest rates and decreasing taxes.
B. Proportionately increasing wages and increasing prices.
C. Decreasing prices and decreasing taxes.
D. Proportionately increasing prices and decreasing wages.

Inflation refers to rising prices. Inevitably this occurs with time. If we increase wages in the same proportion that we increase prices of goods and services, it will have a net effect because even though the cost of goods and services is rising, this is offset by the increase in wages.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

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275. The nation of Florentina is in the midst of a serious economic downturn. The nation's GDP has declined steadily for over five years and is now at its lowest level in over 50 years. Florentina's unemployment rate is at an all-time high and the nation's CPI is falling. Florentina's economic condition is referred to as a:

A. period of stagflation.
B. balance of trade deficit.
C. depression.
D. retraction.

A recession exists when GDP falls for two consecutive quarters (six months). A depression is a severe recession. Since GDP has fallen for more than five years, the unemployment is near an all-time high, and the average level of prices is falling, it is clear that the economy is experiencing a depression.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

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276. John complained to his buddy, Frank, that prices have increased a lot over the past year. Frank disagreed, saying that the prices of some goods have gone up a bit, but other prices have declined, noting that you can get some good buys on houses right now. Frank feels that the average price of consumer goods hasn't changed. Frank and John can refer to the _____ to learn how government economists currently view the price situation.

A. GDP

B. CPI

C. PPI

D. MEW

The consumer price index, or CPI, provides information on changes in consumer prices.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

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277. Emily recently quit her job at a major corporation because she saw little chance for advancement. Although she is still searching for a new position, Emily believes the economy is healthy and she hears that several firms are hiring people with her qualifications. Which of the following statements about Emily's current situation is most accurate? Emily is:

A. not considered unemployed because she voluntarily quit her job.
B. an example of cyclical unemployment.
C. an example of frictional unemployment.
D. likely to find employment quickly if she seeks training in a different field.

Frictional unemployment refers to job seekers who are entering the labor market for the first time (or after a long absence) or are temporarily between jobs. Workers who are frictionally unemployed typically have skills that are in demand, but are in the process of job search and have not yet accepted employment. This appears to be the case for Emily.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

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278. Kathleen's company produces computer monitors and other peripheral devices for computers. About six months ago, Kathleen began to keep track of number of hours worked, and the resulting output at her particular work site. Comparing the results, she found that the number of workers (and the hours they worked) remained relatively steady over the past six months; however, the work site's output increased significantly. This indicates that:

A. productivity at the work site has increased.
B. the work site sold-off some of its excess inventory.
C. the company's prices have increased faster than the wages paid to workers.
D. the company should hire more workers.

Productivity measures the amount of output a given amount of labor can produce in a given time period. If output is increasing, while work hours are unchanged, that means that productivity is increasing.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

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279. Which of the following statements about business cycles in the U.S. is most accurate?

A. Business cycles occur precisely every five years.

B. Long-term business cycles have only two phases—boom and bust.

C. Seasonal business cycles occur within a year.

D. Business cycles are based on theories.

Business cycles are the periodic rises and falls that occur in economies over time. Economists look at a number of types of cycles, from seasonal cycles that occur within a year to cycles that occur every 48 to 60 years. Economist Joseph Schumpeter identified the four phases of long-term business cycles as boom—recession—depression—recovery. Finally, business cycles are based on facts, but what those facts describe can be explained only by using theories.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

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280. Which of the following statements about productivity in the service sector of the U.S. economy is most accurate?

A. Productivity in the service sector has increased much more rapidly than productivity in the manufacturing sector.
B. Improving productivity in the service sector is much less important than improving productivity in the manufacturing sector, because the service sector does not really produce anything.
C. Productivity in the service sector is easier to measure than productivity in agriculture.
D. Measures of productivity in the service sector do a poor job of taking quality improvements into account.

The text cites many examples to illustrate that the quality of output in the service sector has improved dramatically. However, current measures of productivity concentrate on quantity rather than quality. Thus, these current measures understate how improvements in the service sector are contributing to rising standards of living.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

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281. Chase is a recent college graduate with a new job as an engineering trainee for a large defense company. Now that he is making good wages, he hopes to start saving for his first house and also contribute toward the company retirement plan. As he looks over his monthly bills, Chase is concerned about ever getting ahead of the game. His food bill, car payment, and mounting gasoline payments keep him in the "just making ends meet" category. As his mind wanders back to the "good ol' college days," he reflects on a time when gas and food seemed a lot more reasonable. Chase is experiencing the effects of:

A. inflation.
B. conditions of low demand.
C. involuntary CPI.
D. cyclical unemployment.

Chase is experiencing the effects of inflation, or rising prices. When prices rise, but salaries stay the same, we cannot purchase the same amount of those goods and services that we did in the past.

AACSB: Analytical Thinking
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Blooms: Analyze
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

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282. Gabby and Gus Malloy recently got pre-approved on a loan for their first house purchase. They are speculating on how much they should bid on their number one choice, a small, three-bedroom bungalow near a major college town. Which of the following indicators may be an important factor in whether they are able to successfully put in a low bid?

A. The federal tax rate in that area
B. The unemployment rate in that area
C. The producer's price index in that area
D. The CMI, or consumer's marginal index

When people are trying to determine the market value of a large investment such as a house, it is important to review key economic indicators in the area: indicators such as the unemployment rate that would cause housing prices to increase or decrease. If the area has a high unemployment rate, there will not be as many persons interested in buying houses. In fact, the recent recession resulted in significant home foreclosures, where banks could not collect on previous loans. With fewer people interested in purchasing homes due to high unemployment, the market value will decrease. The opposite also holds true: when business is booming and people are relocating to hot spots to work, the market value of homes rises.

AACSB: Analytical Thinking
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Blooms: Analyze
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

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283. Colin just landed a job working for a major online gaming company in Silicon Valley. In a lot of ways, this is his dream job come true, the chance to work for a company that makes gaming software and live in California at the same time. As his plane lands at San Jose International, he pictures a snazzy apartment with a palm tree right outside the front door. A few hours later, as he meets a property manager of a large apartment complex, his heart sinks. The price of apartments is out of sight! Back at the hotel, he logs on to the Bureau of Labor Statistics to try to get a better picture of why the cost of housing is so high in this region of the U.S. Which factors may be causing the rise in the price of housing?

A. Low unemployment rate and increasing GDP
B. High consumer's marginal index and low PPI
C. Low CPI and high state tax rate
D. Decreasing Disruptive Technologies Index and high unemployment

An increase in gross domestic product (GDP) signifies a higher demand for goods and services. When firms are producing, they usually have a need for more workers. If more workers move into the area, the demand for additional housing becomes greater. This will often result in a housing shortage because workers desire to live close to where they work. These circumstances will increase the price of available housing.

AACSB: Analytical Thinking
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Blooms: Analyze
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
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Topic: Key Economic Indicators and How they Affect Business

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284. At the onset of the recent economic slowdown, prices at the grocery stores continued to rise. In some cases, products such as milk and bread almost doubled in price. A Boston newspaper reported, "The price of eggs was up 40% and milk was up 26%." Consumers were already being hit with high energy costs, and now their confidence in the economy was further shaken with job cuts and a loss of discretionary income due to increases in food prices. The economy was slowing, but prices were rising, signifying the potential for _____.

A. deflation
B. stagflation
C. disinflation
D. equalization

Stagflation occurs when the economy is slowing but prices are going up. In the situation described here, the price of wholesale price of flour, eggs, milk, ground beef, corn, soybeans, and wheat surged up causing grocery retailers to raise their prices.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

285. _____ refers to the efforts of the federal government to keep the economy stable by increasing or decreasing taxes and/or government spending.

A. Monetary policy
B. Incomes policy
C. Fiscal policy
D. Cyclical policy

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Blooms: Remember
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 1 Easy

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Topic: Fiscal and Monetary Policy

286. Fiscal policy involves increases or decreases in:

A. the money supply.
B. interest rates.
C. government spending and taxes.
D. exports and imports.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy

287. When the federal government's collection of tax revenues is less than what it spends in a given year, it results in a:

A. Federal Reserve allowance.
B. GDP deflator.
C. balance of payments deficit.
D. national deficit.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy

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288. When the government runs a continual budget deficit, it increases the:

A. national debt.
B. balance of payments deficit.
C. federal capital account.
D. money supply.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy

289. In the U.S., the _____ has the role of managing the money supply and interest rates.

A. United States Treasury
B. Federal Reserve Bank
C. State Department
D. Federal Deposit Insurance Corporation

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy

290. One way to lessen the U.S. government budget deficit is to:

A. cut spending.
B. increase spending.
C. call in government savings bonds.
D. increase government social programs such as welfare, food stamps, and Medicare.

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Accessibility: Keyboard Navigation
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Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy

291. Efforts by the Federal Reserve Bank (the Fed) to control the money supply and interest rates are known as:

A. fiscal policy.
B. incomes policy.
C. monetary policy.
D. securities policy.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy

292. The Federal Reserve Bank operates:

A. as a semi-private organization not under the direct control of the government.
B. under the direct control of the executive branch of the government.
C. under the direction of the Banking Oversight Committee of Congress.
D. as a special agency of the U.S. Treasury.

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Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 1 Easy
Topic: Fiscal and Monetary Policy

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293. Which of the following statements about government deficit spending is most accurate?

A. The federal government violates the law by running deficits because the U.S. Constitution requires the government to balance its budget each year.
B. Although the government used to run big deficits, it has consistently run surpluses since the late 1980s.
C. The government has used deficit spending to lower the national debt.
D. One reason the government has a hard time reducing deficits is that there is a great deal of pressure on the government to expand its spending each year.

The national deficit is the difference between the government's tax revenues and its expenditures. Every year there are calls for new social programs (or increases in allocation for existing programs) and additional needs for military spending. This continuous pressure to increase spending makes it difficult to reduce the level of deficit spending.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy

294. While scanning the movies section in your local online newspaper, you click on the business section by mistake. While you're there, you quickly scan a report that says government spending will again exceed tax revenues in the current year. This means that the:

A. total national debt is likely to increase.
B. national deficit is likely to decrease.
C. rate of inflation is likely to fall.
D. monetary policies pursued by the Fed need tightening.

When its tax revenues fall short of its expenditures, the federal government runs a deficit. Since the national debt is the sum of all deficits, running another deficit will increase the debt.

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Blooms: Understand
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy

295. Which of the following statements about the Federal Reserve Bank (the Fed) is most accurate?

A. The Fed is an agency of the U.S. Treasury Department that has the responsibility of collecting tax receipts for the IRS.
B. The Fed manages the U.S. money supply and interest rates.
C. The Fed is the primary government agency involved in carrying out our nation's fiscal policies.
D. The Fed is the agency of the government that ensures the U.S. maintains enough gold reserves to pay any foreign debts that result from international trade.

The Fed operates as a semi-private organization that has the goal of keeping the economy growing without causing inflation. It does this by managing the supply of money and interest rates.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy

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296. During the recent economic crisis, Presidents George W. Bush and Barack Obama increased government spending by trillions, in order to revive the ailing economy. Their strategy followed the economic theory known as:

A. Malfusian
B. Bernankeism
C. Keynesian
D. Greenspanian

Keynesian economic theory and later adaptations suggest that government policy could be effective in helping manage the economy. By increasing government spending on infrastructure such as the building and repair of roads, bridges, schools, and utilities, the government will purchase goods and services and put people to work.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy

297. Keynesian economic theory suggests:

A. reducing government involvement in the free-market economy.
B. proposing long-term solutions in order to create wider swings in the business cycle.
C. a more permanent government involvement in the banking system, even creating a national banking system that owns and operates most of the global and regional banks.
D. short-term increases in government spending to stimulate the economy.

Keynesian economic theory and later adaptations suggest that government policy could be effective in helping manage the economy. By increasing government spending on infrastructure such as the building and repair of roads, bridges, schools, and utilities, the government could help stimulate the economy.

AACSB: Reflective Thinking
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Blooms: Understand
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 2 Medium
Topic: Fiscal and Monetary Policy

298. Senator Gong Lee is alarmed at the state of the economy. Unemployment is high and GDP is low. Senator Lee has called for Congress to take action to increase government spending and cut taxes in order to stimulate the economy. The actions called for by Senator Lee are examples of:

A. monetary policy.
B. fiscal policy.
C. discretionary income policy.
D. social investment policy.

Changes in the level of government spending and taxes to help stabilize the economy are known as fiscal policies.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy

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299. Your professor showed you an online video of the chair of the Federal Reserve Bank speaking to the American public. The message she is conveying indicates that Fed economists are worried about inflation and believe the best course of action would be to slow the economy. Which of the following policies is the Fed most likely to pursue?

A. Increase taxes.
B. Decrease interest rates.
C. Restrict the money supply and increase interest rates.
D. Devalue the dollar on international currency exchanges.

When the Fed is concerned about inflation it is likely to try to slow down the economy by increasing interest rates and restricting the money supply.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy

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300. Ben recently lost his job at a major U.S. auto plant in one of the rust belt states. After looking unsuccessfully for work in a similar industry for several months, he plans to start interviewing with road and bridge repair companies. He speculates that if the government begins to contract with companies that repair highways and bridges, he may find steady work, at least in the short term. Which of the following statements best describes the strategy behind his thoughts?

A. The best way for the government to reign in on too much money floating around the system is to hire people and pay them wages.
B. Ben doesn't understand the causes of unemployment. We obviously don't need any more autos on the roads if the plant has closed. Repairs will slow down rather than increase.
C. If the current administration asks the Fed to raise interest rates, it will do more than if the current administration begins contracting with road repair companies.
D. By increasing government spending through road and bridge repair and construction, the government will intervene in the free-market economic system to help jump-start a weak economy.

Keynesian economic theory believes that government intervention is sometimes necessary in the short term in order to jump-start an ailing economy. By employing citizens and paying them wages, workers would start spending again, which would help stabilize wide swings in the business cycle.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy

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301. Lance owns Lance Lawns Irrigation Systems, LLC, a company that installs and maintains underground lawn irrigation systems. Business is down due to new housing starts being negatively impacted by a deep recession. To make things worse, his bank called yesterday to inform him that his credit limit (interest fee of 12.5%) will be cut from $30,000 per year to $15,000 per year, unless he is willing to pay a higher interest rate of 20%. As Lance drives to the first job this morning, he knows that his last task of the day will be to reduce the hours for his two employees. He can't afford to work employees eight hours per day, with only a $15,000 line of credit. Which of the following strategies will help Lance's situation?

A. Increase government spending on public parks.
B. Decrease government spending so that banks can keep more reserves.
C. Fed decreases interest rates.
D. Fed increases the federal funds rates to jump-start the economy.

When the economy is in a recession, the Fed will usually step in and lower interest rates, to promote easier borrowing for businesses. If businesses are able to borrow money, they can purchase more assets to run their businesses.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 3 Hard
Topic: Using Monetary Policy to Keep the Economy Growing

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302. In one of his weekly broadcasts, the Federal Reserve Chairman remarked that inflation had begun to tick upward. However, unemployment in the U.S. was still quite high and economic growth had slowed. With short-term interest rates close to 0 (zero), the Chair did not visualize that _____ policy would be able to do anything for the high unemployment problem. He felt that _____ policy would be more useful for bolstering employment, but that would require local and state governments and the federal government to provide tax breaks for corporations.

A. federal; state
B. fiscal; monetary
C. monetary; fiscal
D. fiscal; federal

Monetary policy is the responsibility of the Federal Reserve Bank and the open market committee. Fiscal policy involves raising and lowering taxes. It is the responsibility of Congress to pass legislation, which affects the amount of taxes businesses pay.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy

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303. If businesses are producing at capacity, and the nation is experiencing almost full employment (a very low rate of unemployment—less than 2%), the Fed may decide to:

A. lower interest rates.
B. raise taxes.
C. lower taxes.
D. increase interest rates.

When the business cycle is experiencing a boom, businesses begin producing close to capacity, most people who want to be employed are employed, and spending is robust, the government may decide to curb inflation (rising prices) by raising interest rates to make borrowing less attractive. If borrowing is less attractive, the demand for goods and services will go down, and subsequently prices will remain stable.

AACSB: Knowledge Application
Accessibility: Keyboard Navigation
Blooms: Apply
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy

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Mini-Case

Gig Abite is a bright, hard-working engineer who once owned a successful engineering consulting firm in his native country of Frinezia. Gig became discouraged by the high tax rates in Frinezia, so he immigrated to the United States eleven years ago. Soon after moving to the U.S., Gig again started his own business, which he named Giganeers Consulting. The company struggled at first, and almost went under midway through its second year. However, Gig never lost faith, the company survived, and it soon developed a growing reputation for quality work and dependable service. Giganeers began experiencing sustained growth early in its fourth year. In fact, Gig hired additional employees over the next few years to keep up with the increasing workload. His company, which started with only Gig and two other full-time workers, now provides jobs for 43 full-time employees as well as many part-time workers.
Despite these past successes, some clouds are on the horizon. The company recently suffered its first drop in business since its very early years. Gig is convinced that the problem is not with his company, but rather due to a downturn in the U.S. economy. He heard a national broadcast last week reporting that the value of the total output of final goods and services in the U.S. declined over the last quarter. The news anchor went on to state that many economists believe that this downward trend is likely to continue for several more months. Gig is concerned that he will have to lay off some of his employees if the economy doesn't improve. He hopes that the government does something soon to put the economy back on track.

304. Gig started Giganeers to earn a profit, but by working hard and increasing his market share, he was able to create jobs for others. This is an example of the _____ concept.

A. circular flow
B. invisible hand
C. equitable income
D. social dividend

The invisible hand concept says that self-interest (the desire to earn a profit) leads entrepreneurs to create jobs and produce goods and services that satisfy wants, thus benefiting society as a whole.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze

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Understanding Business 11th edition Nickels Test Bank

Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

305. Gig's native country of Frinezia was much different from the United States. In addition to its higher tax rates, the government offered more extensive social programs that were designed to redistribute income and reduce inequality. Although small businesses were privately owned and operated in Frinezia, many basic industries were owned and operated by the government. From this information, you would classify Frinezia's economic system as _____.

A. Capitalism
B. Socialism
C. Communism
D. Pluralism

The existence of relatively high tax rates and the emphasis on government programs to redistribute income are hallmarks of socialism. Under socialism, governments frequently own some, if not most, basic businesses. However, socialism, unlike communism, does allow at least some private ownership of businesses as well.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-03 Compare socialism and communism.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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306. The broadcast that reported a decline in total output for the United States probably got some of its information from the government's measurement of _____.

A. GDP
B. CPI
C. federal deficit
D. balance of payments

GDP is the total value of output produced by a nation's economy.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

307. The broadcast cited forecasts that national output might continue to fall in the future. If total output shows decline for two consecutive quarters, economists would classify this as a _____.

A. depression
B. retraction
C. period of stagflation
D. recession

A recession occurs when GDP (the nation's total output) declines for two consecutive quarters.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

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308. Gig recently heard a radio report that the Fed will try to help get the U.S. economy back on track. If the Fed takes action, Gig would likely see:

A. lower interest rates.
B. an increase in the size of the government's budget deficit.
C. lower government spending.
D. an increase in the minimum wage.

The Fed is concerned with monetary policy. The Fed achieves its goals by bringing about changes in the supply of money and interest rates. During recessions the Fed normally pursues policies to reduce interest rates in order to stimulate additional spending. The Fed is not directly involved in changing the level of government spending or taxes (and thus does not directly affect the size of the deficit). It is Congress, not the Fed, which would enact legislation needed to increase the minimum wage.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy

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309. Besides the slowdown in the general economy, Giganeers faces threats of competition from several other companies that provide engineering consulting services. In order to gain more business, Gig tries to convince potential clients that his company offers better service than the competition. He has advertised heavily in professional magazines, often quoting some of his highly satisfied clients. The market Giganeers operates in is an example of:

A. perfect competition.
B. monopoly.
C. oligopoly.
D. monopolistic competition.

Monopolistic competition is characterized by many firms competing by offering differentiated products. Giganeer's use of advertising indicates that it is trying to differentiate its product from the many competitors it faces in the market.

AACSB: Analytical Thinking
Accessibility: Keyboard Navigation
Blooms: Analyze
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

Essay Questions

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310. Discuss the views of economist Adam Smith. How does the "invisible hand" philosophy suggested by Smith benefit society as a whole?

Adam Smith believed in a free-market system (also called capitalism). Smith favored a system characterized by economic freedom: the right to private ownership of property, the freedom of choice, and the freedom to compete. In his view, self-interest would lead profit-seeking entrepreneurs to produce those goods most desired by consumers, and subsequently create jobs for others. Thus, self-interested behavior would also serve the best interests of society as a whole. This is the central idea of the invisible hand concept. He also assumed that as people became wealthier, they would naturally seek to help the less fortunate. Smith's views suggested that the role of government in the economy would be quite limited.

AACSB: Knowledge Application
Blooms: Apply
Learning Objective: 02-01 Explain basic economics.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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311. Explain the significance of "price" in a free-market economic system.

In a free-market economy, the mechanism of price determines what gets produced, how much gets produced, and to whom it is distributed. Price (the market value placed on a good or service) is determined by the interaction of buyers and sellers.

Supply is the relationship between the price of a good and the quantity sellers are willing to sell in a given time period. The supply relationship can be illustrated with a graph. This graph will show that the higher the price, the more producers are willing to sell. Generally, the supply graph is demonstrated by a positively sloping curve.

Demand is the relationship between the price of a good and the quantity buyers are willing to buy in a given time period. This relationship can also be illustrated with a graph. The graph will show that the higher the price, the less people are willing to buy. Generally, the demand graph is demonstrated by a negatively sloping curve.

The equilibrium price of a good is the price where the quantity supplied at a certain price is equal to the quantity demanded at a certain price. On a graph, it is found where the supply curve intersects the demand curve. The market price of a good tends to move toward this equilibrium price. If the market price is higher than the equilibrium price, quantity supplied will exceed quantity demanded, and this surplus will put downward pressure on price, moving the market toward equilibrium. If the market price is lower than the equilibrium price, the quantity demanded will be greater than the quantity supplied. Thus, a shortage will exist which will put upward pressure on the market price. The upward movement of price will move the market toward equilibrium. Once the equilibrium price is achieved, there is neither a shortage nor a surplus. Thus at the equilibrium price there is no further pressure for price to rise or fall (unless something happens to cause the supply or demand relationships to change).

AACSB: Knowledge Application
Blooms: Apply
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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312. Identify and describe the four basic rights that form the foundation of capitalism.

The four basic rights are the right to private property, the right to own and operate a business and earn a profit, the right to freedom of competition, and the right to freedom of choice.
The right to private property means that individuals can buy, sell, and use land, buildings, machinery, and other forms of property, and can pass on their property to their children.
The right to own a business and keep all of its profits means that in capitalism businesses are privately owned and operated to further the interests of the owner. People who start businesses thus have a strong incentive to work hard and produce goods and services that are in demand. This is a key element of the invisible hand principle described by Adam Smith.
The right to freedom of competition means that individuals are free to start businesses and compete with other businesses. This competition creates incentives for businesses to innovate, produce quality products, and charge fair prices.
The right to freedom of choice means that people are free to choose where they work, what career to pursue, where to live, and what to buy and sell.

AACSB: Knowledge Application
Blooms: Apply
Learning Objective: 02-02 Explain what capitalism is and how free markets work.
Level of Difficulty: 3 Hard
Topic: Economics and the Types of Economic Systems

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313. When describing the state of the U.S. economy, reporters often refer to the nation's GDP, its unemployment rate, and the CPI. Explain what each of these terms means and why each measure is significant.

GDP is the acronym for *gross domestic product*, which is the total value of a nation's output of final goods and services for a specific year. It is a broad indicator of the overall performance of the economy. Increases and decreases in GDP indicate whether the nation's economy is growing, staying the same, or decreasing. For example, when GDP falls for two or more consecutive quarters the economy is said to be in a *recession*.

The *unemployment* rate measures the numbers of civilians 16 or older that do not have a job, but are also actively seeking to find work. A high unemployment rate indicates that a lot of people who are able to work and want a job are without jobs. This is obviously undesirable, leading to less output and lower incomes in the economy. The unemployment rate is significant because when people are unemployed they generally stop spending. If too many people and businesses stop spending, firms stop producing.

The CPI is the consumer price index. The CPI consists of monthly statistics that measure the pace of inflation or deflation. The prices of goods and services—including food, energy, housing, apparel, and medical care—are measured to determine if there are significant changes. The CPI is an important figure because some wages and salaries, rents and leases, tax brackets, government benefits, and interest rates are based on it. If the CPI index rises too quickly, it will affect the standard of living of most persons.

AACSB: Knowledge Application
Blooms: Apply
Learning Objective: 02-05 Describe the economic system of the United States; including the significance of key economic indicators (especially GDP); productivity; and the business cycle.
Level of Difficulty: 3 Hard
Topic: Key Economic Indicators and How they Affect Business

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314. Explain the difference between fiscal policy and monetary policy. Discuss how each of these approaches can be used to influence the state of the economy.

Fiscal policy refers to changes in the level of government spending and/or taxation that are intended to help keep the economy more stable. For example, during a recession, the government might try to stimulate the economy by encouraging additional spending. One way to do this would be to cut taxes on individuals or businesses, thus giving them more income to spend. Another approach would be for the government to increase its own level of spending on social programs, defense programs or in other areas. On the other hand, when the economy is overheated and experiencing inflationary pressures, the government might try to use fiscal policies to reduce the overall demand for goods and services. This could be done by increasing taxes or by cutting government spending on social programs, defense programs or in other areas.

Monetary policy refers to actions by the Federal Reserve Bank (the Fed) to control the supply of money and interest rates. When the level of economic activity is declining, the Fed normally will reduce interest rates, thus making it more attractive for businesses and households to borrow. This will encourage more spending on goods and services, thus stimulating the economy. When the economy is growing too rapidly (and thus creating inflationary pressures) the Fed may pursue policies designed to increase interest rates, thus reducing attractiveness of borrowing and subsequently reducing the demand for goods and services. When spending is curbed, demand goes down, which also has the effect of stabilizing inflation.

AACSB: Knowledge Application
Blooms: Apply
Learning Objective: 02-06 Contrast fiscal policy and monetary policy; and explain how each affects the economy.
Level of Difficulty: 3 Hard
Topic: Fiscal and Monetary Policy

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