Chapter 01

The Dynamics of Business and Economics

**True / False Questions**

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| 1. | Products have tangible attributes only.  True    False |

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| --- | --- |
| 2. | The primary goal of business activities is profit.  True    False |

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| --- | --- |
| 3. | Nonprofit organizations such as Habitat for Humanity do not engage in management, marketing, or finance activities.  True    False |

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| --- | --- |
| 4. | Profit is what it costs to make and sell a product.  True    False |

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| --- | --- |
| 5. | Businesses have the right to keep and use their profits as they choose, without limitations.  True    False |

**Multiple Choice Questions**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. | \_\_\_\_ is the primary goal of business.

|  |  |
| --- | --- |
| A.  | Growth |

|  |  |
| --- | --- |
| B.  | Profit |

|  |  |
| --- | --- |
| C.  | IPO |

|  |  |
| --- | --- |
| D.  | Marketing |

|  |  |
| --- | --- |
| E.  | Strategy |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 7. | Businesses differ from nonprofit organizations in that a business's focus is on

|  |  |
| --- | --- |
| A.  | price. |

|  |  |
| --- | --- |
| B.  | goods. |

|  |  |
| --- | --- |
| C.  | profit. |

|  |  |
| --- | --- |
| D.  | organization. |

|  |  |
| --- | --- |
| E.  | plans. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 8. | \_\_\_\_ have both tangible and intangible characteristics.

|  |  |
| --- | --- |
| A.  | Products |

|  |  |
| --- | --- |
| B.  | Services |

|  |  |
| --- | --- |
| C.  | Businesses |

|  |  |
| --- | --- |
| D.  | Stakeholders |

|  |  |
| --- | --- |
| E.  | Organizations |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9. | According to the text, profit is the reward for business in exchange for the \_\_\_\_ taken in providing products.

|  |  |
| --- | --- |
| A.  | expenses |

|  |  |
| --- | --- |
| B.  | time |

|  |  |
| --- | --- |
| C.  | energy |

|  |  |
| --- | --- |
| D.  | risks |

|  |  |
| --- | --- |
| E.  | markets |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10. | When purchasing, a consumer is actually buying a product's anticipated benefits and

|  |  |
| --- | --- |
| A.  | satisfaction. |

|  |  |
| --- | --- |
| B.  | price. |

|  |  |
| --- | --- |
| C.  | costs. |

|  |  |
| --- | --- |
| D.  | productivity. |

|  |  |
| --- | --- |
| E.  | form. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 11. | If a business is to be successful in the long run, it must produce quality products, operate efficiently, and be

|  |  |
| --- | --- |
| A.  | fun. |

|  |  |
| --- | --- |
| B.  | socially responsible. |

|  |  |
| --- | --- |
| C.  | hard working. |

|  |  |
| --- | --- |
| D.  | egalitarian. |

|  |  |
| --- | --- |
| E.  | transparent. |

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|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 12. | Which of the following is *not* a product?

|  |  |
| --- | --- |
| A.  | A Dell personal computer |

|  |  |
| --- | --- |
| B.  | A veterinarian's treatment of a pet's injuries |

|  |  |
| --- | --- |
| C.  | A lawyer's advice in a divorce case |

|  |  |
| --- | --- |
| D.  | A business profit |

|  |  |
| --- | --- |
| E.  | A checkup by a doctor |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 13. | The goal of business is to earn

|  |  |
| --- | --- |
| A.  | respect. |

|  |  |
| --- | --- |
| B.  | resources. |

|  |  |
| --- | --- |
| C.  | profits. |

|  |  |
| --- | --- |
| D.  | responsibility. |

|  |  |
| --- | --- |
| E.  | independence. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 14. | Customers, employees, and investors are examples of

|  |  |
| --- | --- |
| A.  | entrepreneurs. |

|  |  |
| --- | --- |
| B.  | stockholders. |

|  |  |
| --- | --- |
| C.  | stakeholders. |

|  |  |
| --- | --- |
| D.  | entities. |

|  |  |
| --- | --- |
| E.  | organizations. |

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**Essay Questions**

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| 15. | Briefly describe the goals of a business, especially the primary goal.      |

**True / False Questions**

|  |  |
| --- | --- |
| 16. | Finance refers to all activities concerned with obtaining money and using it effectively.  True    False |

|  |  |
| --- | --- |
| 17. | Owners have little responsibility to provide funds for the operation of the business.  True    False |

|  |  |
| --- | --- |
| 18. | Managers coordinate resources to achieve the firm's goals.  True    False |

|  |  |
| --- | --- |
| 19. | The focus of all marketing activities is customer satisfaction.  True    False |

|  |  |
| --- | --- |
| 20. | Owners always manage their businesses.  True    False |

**Multiple Choice Questions**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 21. | The functions of organizing, staffing, planning, and controlling are most closely associated with

|  |  |
| --- | --- |
| A.  | employees. |

|  |  |
| --- | --- |
| B.  | customers. |

|  |  |
| --- | --- |
| C.  | managers. |

|  |  |
| --- | --- |
| D.  | stockholders. |

|  |  |
| --- | --- |
| E.  | accountants. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 22. | Which of the following functions involves activities designed to provide goods and services that fulfill needs and desires of consumers?

|  |  |
| --- | --- |
| A.  | Accounting |

|  |  |
| --- | --- |
| B.  | Engineering |

|  |  |
| --- | --- |
| C.  | Finance |

|  |  |
| --- | --- |
| D.  | Production |

|  |  |
| --- | --- |
| E.  | Marketing |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 23. | Advertising, personal selling, coupons, and sweepstakes are forms of \_\_\_\_\_.

|  |  |
| --- | --- |
| A.  | publicity |

|  |  |
| --- | --- |
| B.  | promotion |

|  |  |
| --- | --- |
| C.  | marketing research |

|  |  |
| --- | --- |
| D.  | management activities |

|  |  |
| --- | --- |
| E.  | the marketing mix |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 24. | When a business fails or does not make a profit, \_\_\_\_\_\_\_ have the most to lose.

|  |  |
| --- | --- |
| A.  | customers |

|  |  |
| --- | --- |
| B.  | workers |

|  |  |
| --- | --- |
| C.  | managers |

|  |  |
| --- | --- |
| D.  | owners |

|  |  |
| --- | --- |
| E.  | consumers |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 25. | The function concerned with obtaining and managing money and using it effectively is called

|  |  |
| --- | --- |
| A.  | management. |

|  |  |
| --- | --- |
| B.  | marketing. |

|  |  |
| --- | --- |
| C.  | finance. |

|  |  |
| --- | --- |
| D.  | production and operations. |

|  |  |
| --- | --- |
| E.  | personnel. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 26. | The group of people to whom the management activity most applies is

|  |  |
| --- | --- |
| A.  | consumers. |

|  |  |
| --- | --- |
| B.  | owners. |

|  |  |
| --- | --- |
| C.  | bankers. |

|  |  |
| --- | --- |
| D.  | government regulators. |

|  |  |
| --- | --- |
| E.  | employees. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 27. | \_\_\_\_ have the most to lose if the business fails to make a profit.

|  |  |
| --- | --- |
| A.  | Employees |

|  |  |
| --- | --- |
| B.  | Owners |

|  |  |
| --- | --- |
| C.  | Banks |

|  |  |
| --- | --- |
| D.  | Customers |

|  |  |
| --- | --- |
| E.  | Accountants |

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**Essay Questions**

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| --- | --- |
| 28. | Describe the relationship between management, marketing, finance, owners, employees, and customers.      |

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| --- | --- |
| 29. | What are the people and activities of business? Define each group.      |

**True / False Questions**

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| --- | --- |
| 30. | A central issue of economics is how to fulfill an unlimited demand for goods and services in a world with limited resources.  True    False |

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| --- | --- |
| 31. | Capitalism is an economic system in which the government owns and operates basic industries while individuals own most other businesses.  True    False |

|  |  |
| --- | --- |
| 32. | Most socialist nations are democratic.  True    False |

|  |  |
| --- | --- |
| 33. | In a free-market system, the government regulates business.  True    False |

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| --- | --- |
| 34. | Free-market capitalism and *laissez-faire* capitalism are essentially the same thing.  True    False |

**Multiple Choice Questions**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 35. | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the study of how resources are distributed for the production of goods and services within a social system.

|  |  |
| --- | --- |
| A.  | Financial resources |

|  |  |
| --- | --- |
| B.  | Human resources |

|  |  |
| --- | --- |
| C.  | Economic systems |

|  |  |
| --- | --- |
| D.  | Communism |

|  |  |
| --- | --- |
| E.  | Economics |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 36. | \_\_\_\_ resources are also known as labor.

|  |  |
| --- | --- |
| A.  | Economic |

|  |  |
| --- | --- |
| B.  | Human |

|  |  |
| --- | --- |
| C.  | Productive |

|  |  |
| --- | --- |
| D.  | Financial |

|  |  |
| --- | --- |
| E.  | Natural |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 37. | Financial resources are also known as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

|  |  |
| --- | --- |
| A.  | capital |

|  |  |
| --- | --- |
| B.  | labor |

|  |  |
| --- | --- |
| C.  | barter |

|  |  |
| --- | --- |
| D.  | economics |

|  |  |
| --- | --- |
| E.  | exchange |

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|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 38. | All the following are factors of production used to make goods and services *except*

|  |  |
| --- | --- |
| A.  | natural resources. |

|  |  |
| --- | --- |
| B.  | human resources. |

|  |  |
| --- | --- |
| C.  | customers. |

|  |  |
| --- | --- |
| D.  | capital. |

|  |  |
| --- | --- |
| E.  | financial resources. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 39. | Factors of production are

|  |  |
| --- | --- |
| A.  | resources used to produce goods and services. |

|  |  |
| --- | --- |
| B.  | fixed resources. |

|  |  |
| --- | --- |
| C.  | hard to find. |

|  |  |
| --- | --- |
| D.  | seldom in demand. |

|  |  |
| --- | --- |
| E.  | free to use. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 40. | In a capitalist system, individuals own and operate \_\_\_\_ businesses.

|  |  |
| --- | --- |
| A.  | no |

|  |  |
| --- | --- |
| B.  | few |

|  |  |
| --- | --- |
| C.  | about half |

|  |  |
| --- | --- |
| D.  | many |

|  |  |
| --- | --- |
| E.  | the majority of |

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|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 41. | In a socialist system, citizens are dependent on \_\_\_\_\_\_\_\_\_ for many goods and services.

|  |  |
| --- | --- |
| A.  | the government |

|  |  |
| --- | --- |
| B.  | the people |

|  |  |
| --- | --- |
| C.  | businesses |

|  |  |
| --- | --- |
| D.  | supply and demand |

|  |  |
| --- | --- |
| E.  | suppliers |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 42. | \_\_\_\_ is often called the father of capitalism.

|  |  |
| --- | --- |
| A.  | Karl Marx |

|  |  |
| --- | --- |
| B.  | George Washington |

|  |  |
| --- | --- |
| C.  | Benjamin Franklin |

|  |  |
| --- | --- |
| D.  | Alan Greenspan |

|  |  |
| --- | --- |
| E.  | Adam Smith |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 43. | Equal distribution of income and social services is also referred to as

|  |  |
| --- | --- |
| A.  | *laissez-faire*. |

|  |  |
| --- | --- |
| B.  | egalitarianism. |

|  |  |
| --- | --- |
| C.  | capitalism. |

|  |  |
| --- | --- |
| D.  | equality. |

|  |  |
| --- | --- |
| E.  | democracy. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 44. | In a socialist economic system, people are free to choose an occupation of their choice, but many people work in \_\_\_ jobs.

|  |  |
| --- | --- |
| A.  | self-employed |

|  |  |
| --- | --- |
| B.  | government |

|  |  |
| --- | --- |
| C.  | high-paying |

|  |  |
| --- | --- |
| D.  | poverty-wage |

|  |  |
| --- | --- |
| E.  | part-time |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 45. | The American economic system is best described as \_\_\_\_\_\_\_ because the government regulates business to preserve competition and protect consumers and employees.

|  |  |
| --- | --- |
| A.  | socialism |

|  |  |
| --- | --- |
| B.  | *laissez-faire* capitalism |

|  |  |
| --- | --- |
| C.  | modified capitalism |

|  |  |
| --- | --- |
| D.  | communism |

|  |  |
| --- | --- |
| E.  | business ownership |

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**Essay Questions**

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| --- | --- |
| 46. | What are the three questions that all economic systems must answer? Who answers them under a communist system? A socialist system? A capitalist system?      |

**True / False Questions**

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| --- | --- |
| 47. | Demand is the quantity of goods and services that consumers are willing to buy at different prices at a specific time.  True    False |

|  |  |
| --- | --- |
| 48. | The equilibrium price is represented by the point where a product's supply and demand curves intersect.  True    False |

|  |  |
| --- | --- |
| 49. | Monopolistic competition exists when there is only one producer of a product in a given market.  True    False |

|  |  |
| --- | --- |
| 50. | An oligopoly exists when there are many small businesses selling one standardized product.  True    False |

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| --- | --- |
| 51. | A product's equilibrium price is constantly changing in response to changes in economic conditions, availability of resources, and degree of competition.  True    False |

**Multiple Choice Questions**

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| 52. | \_\_\_\_ relates to the number of goods and services that consumers are willing to buy at different prices at a specific time.

|  |  |
| --- | --- |
| A.  | Supply |

|  |  |
| --- | --- |
| B.  | Demand |

|  |  |
| --- | --- |
| C.  | Elasticity |

|  |  |
| --- | --- |
| D.  | Equilibrium |

|  |  |
| --- | --- |
| E.  | Economics |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 53. | The \_\_\_\_\_\_\_ is the price at which the number of products that businesses are willing to supply equals the number of products consumers are willing to purchase at a point in time.

|  |  |
| --- | --- |
| A.  | supply price |

|  |  |
| --- | --- |
| B.  | equilibrium price |

|  |  |
| --- | --- |
| C.  | demand price |

|  |  |
| --- | --- |
| D.  | demand curve |

|  |  |
| --- | --- |
| E.  | exact price |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 54. | When Target has a sale on bed linens,

|  |  |
| --- | --- |
| A.  | consumers will not demand more than normal. |

|  |  |
| --- | --- |
| B.  | the store will not supply more linens than it normally does. |

|  |  |
| --- | --- |
| C.  | consumers will demand more linens. |

|  |  |
| --- | --- |
| D.  | the manufacturer will halt production. |

|  |  |
| --- | --- |
| E.  | consumers will demand fewer linens than normal. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 55. | When Apple introduced the iPad, the price of and demand for netbook and notebook computers were high. As a result,

|  |  |
| --- | --- |
| A.  | other suppliers introduced competing products to take advantage of the demand. |

|  |  |
| --- | --- |
| B.  | consumers stopped buying netpads. |

|  |  |
| --- | --- |
| C.  | manufacturers stopped producing netpads. |

|  |  |
| --- | --- |
| D.  | competition was not allowed to enter the market. |

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| --- | --- |
| E.  | the equilibrium price met supply. |

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| 56. | Using the supply and demand curves shown in the graph that follows, what is the equilibrium price for soft drinks?

|  |  |
| --- | --- |
| A.  | 35 cents |

|  |  |
| --- | --- |
| B.  | 45 cents |

|  |  |
| --- | --- |
| C.  | 50 cents |

|  |  |
| --- | --- |
| D.  | 55 cents |

|  |  |
| --- | --- |
| E.  | 75 cents |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 57. | When businesses can promote different features of their products and consumers are willing to pay more for products containing the features they desire, the competitive environment is probably

|  |  |
| --- | --- |
| A.  | pure competition. |

|  |  |
| --- | --- |
| B.  | monopolistic competition. |

|  |  |
| --- | --- |
| C.  | oligopoly. |

|  |  |
| --- | --- |
| D.  | monopoly. |

|  |  |
| --- | --- |
| E.  | pure capitalism. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 58. | Agricultural commodities are usually sold under which competitive environment?

|  |  |
| --- | --- |
| A.  | Monopoly |

|  |  |
| --- | --- |
| B.  | Monopolistic competition |

|  |  |
| --- | --- |
| C.  | Pure competition |

|  |  |
| --- | --- |
| D.  | Oligopoly |

|  |  |
| --- | --- |
| E.  | Modified competition |

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|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 59. | \_\_\_\_\_\_\_\_\_\_\_ exists when there are many small businesses selling one standardized product.

|  |  |
| --- | --- |
| A.  | Monopolistic competition |

|  |  |
| --- | --- |
| B.  | Oligopoly |

|  |  |
| --- | --- |
| C.  | Pure competition |

|  |  |
| --- | --- |
| D.  | Monopoly |

|  |  |
| --- | --- |
| E.  | Market structure |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 60. | When there is only one business providing a product in a given market, there exists

|  |  |
| --- | --- |
| A.  | an oligopoly. |

|  |  |
| --- | --- |
| B.  | unfair competition. |

|  |  |
| --- | --- |
| C.  | pure competition. |

|  |  |
| --- | --- |
| D.  | monopolistic competition. |

|  |  |
| --- | --- |
| E.  | a monopoly. |

 |

**Essay Questions**

|  |  |
| --- | --- |
| 61. | Define supply, demand, and equilibrium price, and explain their relationship with each other.      |

|  |  |
| --- | --- |
| 62. | Define competition, and describe the different forms it can take.      |

**True / False Questions**

|  |  |
| --- | --- |
| 63. | Economic expansion occurs when an economy is growing and people are spending more money.  True    False |

|  |  |
| --- | --- |
| 64. | The standard of living rises because people have less money to spend.  True    False |

|  |  |
| --- | --- |
| 65. | A severe recession may turn into a depression.  True    False |

|  |  |
| --- | --- |
| 66. | Gross domestic product is the sum of all goods and services produced in a country during a year.  True    False |

|  |  |
| --- | --- |
| 67. | When a nation takes more from taxes than it spends, it has a budget deficit.  True    False |

**Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 68. | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ can be harmful if individuals' incomes do not increase at the same pace as rising prices because it reduces their buying power.

|  |  |
| --- | --- |
| A.  | Deflation |

|  |  |
| --- | --- |
| B.  | Stagflation |

|  |  |
| --- | --- |
| C.  | Inflation |

|  |  |
| --- | --- |
| D.  | Economic expansion |

|  |  |
| --- | --- |
| E.  | Economic contraction |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 69. | Economic expansion occurs when

|  |  |
| --- | --- |
| A.  | fewer goods and services are produced than consumers demand. |

|  |  |
| --- | --- |
| B.  | an economy is growing and people are spending more money. |

|  |  |
| --- | --- |
| C.  | a nation's standard of living drops quickly. |

|  |  |
| --- | --- |
| D.  | employment levels decline over time. |

|  |  |
| --- | --- |
| E.  | prices begin to rise and incomes begin to fall. |

 |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 70. | A continuing rise in prices over a period of time refers to

|  |  |
| --- | --- |
| A.  | inflation. |

|  |  |
| --- | --- |
| B.  | economic expansion. |

|  |  |
| --- | --- |
| C.  | a recession. |

|  |  |
| --- | --- |
| D.  | economic contraction. |

|  |  |
| --- | --- |
| E.  | deflation. |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 71. | Economic contraction occurs when

|  |  |
| --- | --- |
| A.  | spending increases. |

|  |  |
| --- | --- |
| B.  | spending declines. |

|  |  |
| --- | --- |
| C.  | jobs increase. |

|  |  |
| --- | --- |
| D.  | inflation decreases. |

|  |  |
| --- | --- |
| E.  | unemployment falls. |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 72. | Countries measure the state of their economies to

|  |  |
| --- | --- |
| A.  | determine whether they are expanding or contracting. |

|  |  |
| --- | --- |
| B.  | regulate wages and employment. |

|  |  |
| --- | --- |
| C.  | let other nations know the state of their economic health. |

|  |  |
| --- | --- |
| D.  | avoid taking corrective action. |

|  |  |
| --- | --- |
| E.  | control government spending. |

 |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 73. | Increased unemployment can reduce consumer demand for goods and services, leading to

|  |  |
| --- | --- |
| A.  | economic expansion. |

|  |  |
| --- | --- |
| B.  | inflation. |

|  |  |
| --- | --- |
| C.  | deflation. |

|  |  |
| --- | --- |
| D.  | a budget deficit. |

|  |  |
| --- | --- |
| E.  | recovery. |

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|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 74. | A budget surplus, when a nation spends less than it takes in from taxes, is the opposite of a(n)

|  |  |
| --- | --- |
| A.  | stagnant income. |

|  |  |
| --- | --- |
| B.  | budget deficit. |

|  |  |
| --- | --- |
| C.  | economic expansion. |

|  |  |
| --- | --- |
| D.  | balance of trade. |

|  |  |
| --- | --- |
| E.  | economic contraction. |

 |

**Essay Questions**

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| --- | --- |
| 75. | What is an economic contraction, and what can it lead to?      |

|  |  |
| --- | --- |
| 76. | Discuss the issues involved in measuring a country's economy.      |

**True / False Questions**

|  |  |
| --- | --- |
| 77. | The Industrial Revolution brought increasing prosperity and propelled the United States into a manufacturing economy.  True    False |

|  |  |
| --- | --- |
| 78. | After World War II, the United States became an agricultural economy.  True    False |

|  |  |
| --- | --- |
| 79. | Advertising first made consumers aware of differences in products and prices in the marketing economy.  True    False |

|  |  |
| --- | --- |
| 80. | Entrepreneurs risk their wealth, time, and effort to develop for profit an innovative product or way of doing something.  True    False |

|  |  |
| --- | --- |
| 81. | Thomas Edison was an American entrepreneur.  True    False |

**Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 82. | The early economy of the United States was marked by colonists who operated a society based primarily on

|  |  |
| --- | --- |
| A.  | manufacturing. |

|  |  |
| --- | --- |
| B.  | technology. |

|  |  |
| --- | --- |
| C.  | sweat shops. |

|  |  |
| --- | --- |
| D.  | information. |

|  |  |
| --- | --- |
| E.  | agriculture. |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 83. | All of the following are associated with the Industrial Revolution *except*

|  |  |
| --- | --- |
| A.  | cotton gins. |

|  |  |
| --- | --- |
| B.  | railroads. |

|  |  |
| --- | --- |
| C.  | farm equipment. |

|  |  |
| --- | --- |
| D.  | computers. |

|  |  |
| --- | --- |
| E.  | assembly lines. |

 |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 84. | In the history of the American economy, the period or stage following the Industrial Revolution was known for its emphasis on

|  |  |
| --- | --- |
| A.  | service. |

|  |  |
| --- | --- |
| B.  | technology. |

|  |  |
| --- | --- |
| C.  | manufacturing. |

|  |  |
| --- | --- |
| D.  | agriculture. |

|  |  |
| --- | --- |
| E.  | information. |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 85. | The entrepreneur has been primarily associated with willingness to

|  |  |
| --- | --- |
| A.  | stay conventional. |

|  |  |
| --- | --- |
| B.  | follow others. |

|  |  |
| --- | --- |
| C.  | take risks. |

|  |  |
| --- | --- |
| D.  | be repetitive. |

|  |  |
| --- | --- |
| E.  | be conservative. |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 86. | Trends have gradually changed the U.S. to a(n) \_\_\_\_\_ economy focused on making life easier for busy consumers.

|  |  |
| --- | --- |
| A.  | manufacturing |

|  |  |
| --- | --- |
| B.  | service |

|  |  |
| --- | --- |
| C.  | agriculture |

|  |  |
| --- | --- |
| D.  | technology |

|  |  |
| --- | --- |
| E.  | marketing |

 |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 87. | All of the following are associated with the manufacturing and marketing economies *except*

|  |  |
| --- | --- |
| A.  | buying on credit. |

|  |  |
| --- | --- |
| B.  | widespread use of assembly lines. |

|  |  |
| --- | --- |
| C.  | advertising. |

|  |  |
| --- | --- |
| D.  | farming. |

|  |  |
| --- | --- |
| E.  | marketing research. |

 |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 88. | What is the primary lesson to be learned from the economic scandals of the early 21st century?

|  |  |
| --- | --- |
| A.  | Businesses' reputations depend on their profits. |

|  |  |
| --- | --- |
| B.  | Public confidence in corporate America depends on companies' bottom lines. |

|  |  |
| --- | --- |
| C.  | Most businesses can focus on their bottoms lines to the exclusion of other factors. |

|  |  |
| --- | --- |
| D.  | Ethical conduct and corporate social responsibility are very important. |

|  |  |
| --- | --- |
| E.  | Executives who engage in misconduct are likely to get away with it if it enhances their firms' profits. |

 |

**Essay Questions**

|  |  |
| --- | --- |
| 89. | Why are entrepreneurs important to the economy?      |

|  |  |
| --- | --- |
| 90. | Are there signs that business ethics are improving over time? If so, what are they? If not, what areas need improvement?      |

**Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 91. | Shelly's business was successful for all of the following reasons *except*

|  |  |
| --- | --- |
| A.  | quality product. |

|  |  |
| --- | --- |
| B.  | appropriate incentives for employees. |

|  |  |
| --- | --- |
| C.  | productive employees. |

|  |  |
| --- | --- |
| D.  | employees who enjoyed being part of a new business. |

|  |  |
| --- | --- |
| E.  | she had no competitors. |

 |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 92. | After demand began to accelerate beyond supply, Mrs. Acres Homemade Pies was faced with a series of options. Which of the following is *not* one of those options?

|  |  |
| --- | --- |
| A.  | Maintain current production levels and raise prices |

|  |  |
| --- | --- |
| B.  | Expand the facility and staff while maintaining price |

|  |  |
| --- | --- |
| C.  | Contract the production of pies to a national restaurant chain |

|  |  |
| --- | --- |
| D.  | Maintain current levels of product and reduce the price |

|  |  |
| --- | --- |
| E.  | Increase production and maintain the price |

 |

**Essay Questions**

|  |  |
| --- | --- |
| 93. | Explain and demonstrate the relationship between supply and demand for Mrs. Acres Homemade Pies.      |

|  |  |
| --- | --- |
| 94. | What challenges does Shelly face as she considers the three options?      |

|  |  |
| --- | --- |
| 95. | What would you do in Shelly's position?    |

Chapter 01 The Dynamics of Business and Economics Answer Key

**True / False Questions**

|  |  |
| --- | --- |
| 1. | Products have tangible attributes only.  **FALSE**Products have both tangible and intangible attributes. A service, which has intangible attributes, is also a product. |

|  |
| --- |
| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-01 Define basic concepts such as business; product; and profit.Level of Difficulty: 1 EasyTopic: The Nature of Business* |

|  |  |
| --- | --- |
| 2. | The primary goal of business activities is profit.  **TRUE**Without profit, businesses will go out of business. |

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| --- |
| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-01 Define basic concepts such as business; product; and profit.Level of Difficulty: 1 EasyTopic: The Nature of Business* |

|  |  |
| --- | --- |
| 3. | Nonprofit organizations such as Habitat for Humanity do not engage in management, marketing, or finance activities.  **FALSE**Nonprofit organizations do not accumulate profits but they do engage in business activities in order to provide goods and services. |

|  |
| --- |
| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-01 Define basic concepts such as business; product; and profit.Level of Difficulty: 2 MediumTopic: The Nature of Business* |

|  |  |
| --- | --- |
| 4. | Profit is what it costs to make and sell a product.  **FALSE**Profit is the difference between what it costs to make and sell a product and what a customer pays for it. |

|  |
| --- |
| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-01 Define basic concepts such as business; product; and profit.Level of Difficulty: 1 EasyTopic: The Nature of Business* |

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| --- | --- |
| 5. | Businesses have the right to keep and use their profits as they choose, without limitations.  **FALSE**Within legal limitations, businesses have the right to keep and use their profits as they choose. |

|  |
| --- |
| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-01 Define basic concepts such as business; product; and profit.Level of Difficulty: 1 EasyTopic: The Nature of Business* |

**Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 6. | \_\_\_\_ is the primary goal of business.

|  |  |
| --- | --- |
| A.  | Growth |

|  |  |
| --- | --- |
| **B.**  | Profit |

|  |  |
| --- | --- |
| C.  | IPO |

|  |  |
| --- | --- |
| D.  | Marketing |

|  |  |
| --- | --- |
| E.  | Strategy |

The primary goal of all businesses is to earn a profit. |

|  |
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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-01 Define basic concepts such as business; product; and profit.Level of Difficulty: 1 EasyTopic: The Nature of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 7. | Businesses differ from nonprofit organizations in that a business's focus is on

|  |  |
| --- | --- |
| A.  | price. |

|  |  |
| --- | --- |
| B.  | goods. |

|  |  |
| --- | --- |
| **C.**  | profit. |

|  |  |
| --- | --- |
| D.  | organization. |

|  |  |
| --- | --- |
| E.  | plans. |

Businesses strive to earn profits; nonprofit organizations do not. |

|  |
| --- |
| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-01 Define basic concepts such as business; product; and profit.Level of Difficulty: 2 MediumTopic: The Nature of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 8. | \_\_\_\_ have both tangible and intangible characteristics.

|  |  |
| --- | --- |
| **A.**  | Products |

|  |  |
| --- | --- |
| B.  | Services |

|  |  |
| --- | --- |
| C.  | Businesses |

|  |  |
| --- | --- |
| D.  | Stakeholders |

|  |  |
| --- | --- |
| E.  | Organizations |

A product can be a tangible good, a service of value to a customer, or even an idea. |

|  |
| --- |
| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-01 Define basic concepts such as business; product; and profit.Level of Difficulty: 1 EasyTopic: The Nature of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 9. | According to the text, profit is the reward for business in exchange for the \_\_\_\_ taken in providing products.

|  |  |
| --- | --- |
| A.  | expenses |

|  |  |
| --- | --- |
| B.  | time |

|  |  |
| --- | --- |
| C.  | energy |

|  |  |
| --- | --- |
| **D.**  | risks |

|  |  |
| --- | --- |
| E.  | markets |

Businesses assume risks in providing products and are entitled to the reward of profit. |

|  |
| --- |
| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-01 Define basic concepts such as business; product; and profit.Level of Difficulty: 2 MediumTopic: The Nature of Business* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 10. | When purchasing, a consumer is actually buying a product's anticipated benefits and

|  |  |
| --- | --- |
| **A.**  | satisfaction. |

|  |  |
| --- | --- |
| B.  | price. |

|  |  |
| --- | --- |
| C.  | costs. |

|  |  |
| --- | --- |
| D.  | productivity. |

|  |  |
| --- | --- |
| E.  | form. |

Consumers buy products to satisfy a perceived need, such as buying a Big Mac to satisfy hunger. |

|  |
| --- |
| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-01 Define basic concepts such as business; product; and profit.Level of Difficulty: 2 MediumTopic: The Nature of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 11. | If a business is to be successful in the long run, it must produce quality products, operate efficiently, and be

|  |  |
| --- | --- |
| A.  | fun. |

|  |  |
| --- | --- |
| **B.**  | socially responsible. |

|  |  |
| --- | --- |
| C.  | hard working. |

|  |  |
| --- | --- |
| D.  | egalitarian. |

|  |  |
| --- | --- |
| E.  | transparent. |

Stakeholders have a stake in the success and outcomes of businesses; therefore a business should act with social responsibility toward its stakeholders. |

|  |
| --- |
| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-01 Define basic concepts such as business; product; and profit.Level of Difficulty: 1 EasyTopic: The Nature of Business* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 12. | Which of the following is *not* a product?

|  |  |
| --- | --- |
| A.  | A Dell personal computer |

|  |  |
| --- | --- |
| B.  | A veterinarian's treatment of a pet's injuries |

|  |  |
| --- | --- |
| C.  | A lawyer's advice in a divorce case |

|  |  |
| --- | --- |
| **D.**  | A business profit |

|  |  |
| --- | --- |
| E.  | A checkup by a doctor |

Business profit is a financial result rather than a product. |

|  |
| --- |
| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-01 Define basic concepts such as business; product; and profit.Level of Difficulty: 2 MediumTopic: The Nature of Business* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 13. | The goal of business is to earn

|  |  |
| --- | --- |
| A.  | respect. |

|  |  |
| --- | --- |
| B.  | resources. |

|  |  |
| --- | --- |
| **C.**  | profits. |

|  |  |
| --- | --- |
| D.  | responsibility. |

|  |  |
| --- | --- |
| E.  | independence. |

If a business does not earn a profit, it will go out of business. |

|  |
| --- |
| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-01 Define basic concepts such as business; product; and profit.Level of Difficulty: 2 MediumTopic: The Nature of Business* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 14. | Customers, employees, and investors are examples of

|  |  |
| --- | --- |
| A.  | entrepreneurs. |

|  |  |
| --- | --- |
| B.  | stockholders. |

|  |  |
| --- | --- |
| **C.**  | stakeholders. |

|  |  |
| --- | --- |
| D.  | entities. |

|  |  |
| --- | --- |
| E.  | organizations. |

Stakeholders—including customers, employees, and investors—have a stake in the success and/or outcomes of a business. |

|  |
| --- |
| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-01 Define basic concepts such as business; product; and profit.Level of Difficulty: 1 EasyTopic: The Nature of Business* |

**Essay Questions**

|  |  |
| --- | --- |
| 15. | Briefly describe the goals of a business, especially the primary goal.  The primary goal of business is profit, the difference between what it costs to make and sell a product and what the customer pays for it. Other business goals may include acting ethically and socially responsible. |

|  |
| --- |
| *AACSB: Reflective ThinkingBlooms: AnalyzeLearning Objective: 01-01 Define basic concepts such as business; product; and profit.Level of Difficulty: 2 MediumTopic: The Nature of Business* |

**True / False Questions**

|  |  |
| --- | --- |
| 16. | Finance refers to all activities concerned with obtaining money and using it effectively.  **TRUE**Financial resources must be managed effectively if the business will succeed. |

|  |
| --- |
| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.Level of Difficulty: 1 EasyTopic: The Nature of Business* |

|  |  |
| --- | --- |
| 17. | Owners have little responsibility to provide funds for the operation of the business.  **FALSE**The primary responsibility of the owners is to provide financial resources of the business. |

|  |
| --- |
| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.Level of Difficulty: 2 MediumTopic: The Nature of Business* |

|  |  |
| --- | --- |
| 18. | Managers coordinate resources to achieve the firm's goals.  **TRUE**Managers coordinate, organize, and motivate employees to achieve the business's goals. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.Level of Difficulty: 1 EasyTopic: The Nature of Business* |

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| --- | --- |
| 19. | The focus of all marketing activities is customer satisfaction.  **TRUE**Marketing includes all the activities designed to provide goods and services that satisfy customers' needs and wants. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.Level of Difficulty: 1 EasyTopic: The Nature of Business* |

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| --- | --- |
| 20. | Owners always manage their businesses.  **FALSE**Owners can manage the business themselves or hire employees to accomplish this task. |

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| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.Level of Difficulty: 2 MediumTopic: The Nature of Business* |

**Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 21. | The functions of organizing, staffing, planning, and controlling are most closely associated with

|  |  |
| --- | --- |
| A.  | employees. |

|  |  |
| --- | --- |
| B.  | customers. |

|  |  |
| --- | --- |
| **C.**  | managers. |

|  |  |
| --- | --- |
| D.  | stockholders. |

|  |  |
| --- | --- |
| E.  | accountants. |

Managers plan, organize, staff, and control the tasks required to carry out the work of the company or nonprofit organization. |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 22. | Which of the following functions involves activities designed to provide goods and services that fulfill needs and desires of consumers?

|  |  |
| --- | --- |
| A.  | Accounting |

|  |  |
| --- | --- |
| B.  | Engineering |

|  |  |
| --- | --- |
| C.  | Finance |

|  |  |
| --- | --- |
| D.  | Production |

|  |  |
| --- | --- |
| **E.**  | Marketing |

Marketing includes all the activities designed to provide goods and services that satisfy customers' needs and wants. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.Level of Difficulty: 2 MediumTopic: The Nature of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 23. | Advertising, personal selling, coupons, and sweepstakes are forms of \_\_\_\_\_.

|  |  |
| --- | --- |
| A.  | publicity |

|  |  |
| --- | --- |
| **B.**  | promotion |

|  |  |
| --- | --- |
| C.  | marketing research |

|  |  |
| --- | --- |
| D.  | management activities |

|  |  |
| --- | --- |
| E.  | the marketing mix |

Marketers use various forms of promotion to communicate the benefits of their products to consumers. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.Level of Difficulty: 1 EasyTopic: The Nature of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 24. | When a business fails or does not make a profit, \_\_\_\_\_\_\_ have the most to lose.

|  |  |
| --- | --- |
| A.  | customers |

|  |  |
| --- | --- |
| B.  | workers |

|  |  |
| --- | --- |
| C.  | managers |

|  |  |
| --- | --- |
| **D.**  | owners |

|  |  |
| --- | --- |
| E.  | consumers |

Owners are responsible for providing financial resources for business operations and may have to borrow or invest their own money during start-up. |

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| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.Level of Difficulty: 2 MediumTopic: The Nature of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 25. | The function concerned with obtaining and managing money and using it effectively is called

|  |  |
| --- | --- |
| A.  | management. |

|  |  |
| --- | --- |
| B.  | marketing. |

|  |  |
| --- | --- |
| **C.**  | finance. |

|  |  |
| --- | --- |
| D.  | production and operations. |

|  |  |
| --- | --- |
| E.  | personnel. |

Finance refers to all activities concerned with obtaining money and using it effectively. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.Level of Difficulty: 1 EasyTopic: The Nature of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 26. | The group of people to whom the management activity most applies is

|  |  |
| --- | --- |
| A.  | consumers. |

|  |  |
| --- | --- |
| B.  | owners. |

|  |  |
| --- | --- |
| C.  | bankers. |

|  |  |
| --- | --- |
| D.  | government regulators. |

|  |  |
| --- | --- |
| **E.**  | employees. |

Managers coordinate, organize, and motivate employees to achieve the business goals. |

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| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.Level of Difficulty: 2 MediumTopic: The Nature of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 27. | \_\_\_\_ have the most to lose if the business fails to make a profit.

|  |  |
| --- | --- |
| A.  | Employees |

|  |  |
| --- | --- |
| **B.**  | Owners |

|  |  |
| --- | --- |
| C.  | Banks |

|  |  |
| --- | --- |
| D.  | Customers |

|  |  |
| --- | --- |
| E.  | Accountants |

Owners must provide the resources to start a business and cannot recoup their investment if a business does not make a profit. |

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| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.Level of Difficulty: 2 MediumTopic: The Nature of Business* |

**Essay Questions**

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| --- | --- |
| 28. | Describe the relationship between management, marketing, finance, owners, employees, and customers.  Management involves coordinating the efforts of employees to achieve organizational objectives. Marketing involves activities designed to provide goods and services that satisfy customers. Finance involves activities concerned with obtaining money—from owners and investors and other sources—and using it effectively. |

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| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.Level of Difficulty: 2 MediumTopic: The Nature of Business* |

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| --- | --- |
| 29. | What are the people and activities of business? Define each group.  The people of business are owners, employees, and customers. Owners have to put up resources—money or credit—to start a business. Employees are responsible for the work that goes on within a business. Owners can manage the business themselves or hire employees to accomplish this task. A business's most important role is to satisfy the customers who buy its goods or services. The major activities of business are management, marketing and finance. |

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| *AACSB: Reflective ThinkingBlooms: AnalyzeLearning Objective: 01-02 Identify the main participants and activities of business and explain why studying business is important.Level of Difficulty: 2 MediumTopic: The Nature of Business* |

**True / False Questions**

|  |  |
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| 30. | A central issue of economics is how to fulfill an unlimited demand for goods and services in a world with limited resources.  **TRUE**Economics is the study of how resources are distributed for the production of goods and services. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-03 Define economics and compare the four types of economic systems.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

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| --- | --- |
| 31. | Capitalism is an economic system in which the government owns and operates basic industries while individuals own most other businesses.  **FALSE**Socialism is an economic system in which the government owns and operates basic industries while individuals own most other businesses. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-03 Define economics and compare the four types of economic systems.Level of Difficulty: 1 EasyTopic: The Economic Foundations of Business* |

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| 32. | Most socialist nations are democratic.  **TRUE**Most socialist nations recognize basic individual freedoms such as voting for government officials. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-03 Define economics and compare the four types of economic systems.Level of Difficulty: 1 EasyTopic: The Economic Foundations of Business* |

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| 33. | In a free-market system, the government regulates business.  **FALSE**In a free-market system, competition, supply and demand determine which goods and services are produced. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-03 Define economics and compare the four types of economic systems.Level of Difficulty: 1 EasyTopic: The Economic Foundations of Business* |

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| --- | --- |
| 34. | Free-market capitalism and *laissez-faire* capitalism are essentially the same thing.  **TRUE**Government does not interfere in a fully free-market or laissez-faire system. |

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| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-03 Define economics and compare the four types of economic systems.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

**Multiple Choice Questions**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 35. | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the study of how resources are distributed for the production of goods and services within a social system.

|  |  |
| --- | --- |
| A.  | Financial resources |

|  |  |
| --- | --- |
| B.  | Human resources |

|  |  |
| --- | --- |
| C.  | Economic systems |

|  |  |
| --- | --- |
| D.  | Communism |

|  |  |
| --- | --- |
| **E.**  | Economics |

Economics is the study of how resources are distributed for the production of goods and services within a social system. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-03 Define economics and compare the four types of economic systems.Level of Difficulty: 1 EasyTopic: The Economic Foundations of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 36. | \_\_\_\_ resources are also known as labor.

|  |  |
| --- | --- |
| A.  | Economic |

|  |  |
| --- | --- |
| **B.**  | Human |

|  |  |
| --- | --- |
| C.  | Productive |

|  |  |
| --- | --- |
| D.  | Financial |

|  |  |
| --- | --- |
| E.  | Natural |

Human resources, or labor, refer to the physical and mental abilities that people use to produce goods and services. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-03 Define economics and compare the four types of economic systems.Level of Difficulty: 1 EasyTopic: The Economic Foundations of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 37. | Financial resources are also known as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

|  |  |
| --- | --- |
| **A.**  | capital |

|  |  |
| --- | --- |
| B.  | labor |

|  |  |
| --- | --- |
| C.  | barter |

|  |  |
| --- | --- |
| D.  | economics |

|  |  |
| --- | --- |
| E.  | exchange |

Financial resources, also known as capital, are used to acquire the natural and human resources needed to provide products. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-03 Define economics and compare the four types of economic systems.Level of Difficulty: 1 EasyTopic: The Economic Foundations of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 38. | All the following are factors of production used to make goods and services *except*

|  |  |
| --- | --- |
| A.  | natural resources. |

|  |  |
| --- | --- |
| B.  | human resources. |

|  |  |
| --- | --- |
| **C.**  | customers. |

|  |  |
| --- | --- |
| D.  | capital. |

|  |  |
| --- | --- |
| E.  | financial resources. |

Customers are not a factor of production. They consume goods and services. |

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| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-03 Define economics and compare the four types of economic systems.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 39. | Factors of production are

|  |  |
| --- | --- |
| **A.**  | resources used to produce goods and services. |

|  |  |
| --- | --- |
| B.  | fixed resources. |

|  |  |
| --- | --- |
| C.  | hard to find. |

|  |  |
| --- | --- |
| D.  | seldom in demand. |

|  |  |
| --- | --- |
| E.  | free to use. |

Factors of production are natural, human, and financial resources. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-03 Define economics and compare the four types of economic systems.Level of Difficulty: 1 EasyTopic: The Economic Foundations of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 40. | In a capitalist system, individuals own and operate \_\_\_\_ businesses.

|  |  |
| --- | --- |
| A.  | no |

|  |  |
| --- | --- |
| B.  | few |

|  |  |
| --- | --- |
| C.  | about half |

|  |  |
| --- | --- |
| D.  | many |

|  |  |
| --- | --- |
| **E.**  | the majority of |

Individuals own and operate the majority of businesses that provide goods and services in a capitalist system. |

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| --- |
| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-03 Define economics and compare the four types of economic systems.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 41. | In a socialist system, citizens are dependent on \_\_\_\_\_\_\_\_\_ for many goods and services.

|  |  |
| --- | --- |
| **A.**  | the government |

|  |  |
| --- | --- |
| B.  | the people |

|  |  |
| --- | --- |
| C.  | businesses |

|  |  |
| --- | --- |
| D.  | supply and demand |

|  |  |
| --- | --- |
| E.  | suppliers |

In socialist systems, the government owns and operates basic industries that provide goods and services for the public. |

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| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-03 Define economics and compare the four types of economic systems.Level of Difficulty: 1 EasyTopic: The Economic Foundations of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 42. | \_\_\_\_ is often called the father of capitalism.

|  |  |
| --- | --- |
| A.  | Karl Marx |

|  |  |
| --- | --- |
| B.  | George Washington |

|  |  |
| --- | --- |
| C.  | Benjamin Franklin |

|  |  |
| --- | --- |
| D.  | Alan Greenspan |

|  |  |
| --- | --- |
| **E.**  | Adam Smith |

The modern free market system was first described by Adam Smith in The Wealth of Nations in 1776. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-03 Define economics and compare the four types of economic systems.Level of Difficulty: 1 EasyTopic: The Economic Foundations of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 43. | Equal distribution of income and social services is also referred to as

|  |  |
| --- | --- |
| A.  | *laissez-faire*. |

|  |  |
| --- | --- |
| **B.**  | egalitarianism. |

|  |  |
| --- | --- |
| C.  | capitalism. |

|  |  |
| --- | --- |
| D.  | equality. |

|  |  |
| --- | --- |
| E.  | democracy. |

Egalitarianism, the equal distribution of income and social services, is the professed objective of socialist systems. |

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| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-03 Define economics and compare the four types of economic systems.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 44. | In a socialist economic system, people are free to choose an occupation of their choice, but many people work in \_\_\_ jobs.

|  |  |
| --- | --- |
| A.  | self-employed |

|  |  |
| --- | --- |
| **B.**  | government |

|  |  |
| --- | --- |
| C.  | high-paying |

|  |  |
| --- | --- |
| D.  | poverty-wage |

|  |  |
| --- | --- |
| E.  | part-time |

In a socialist economic system, the government is much larger than in free market systems and therefore requires more employees. |

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| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-03 Define economics and compare the four types of economic systems.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 45. | The American economic system is best described as \_\_\_\_\_\_\_ because the government regulates business to preserve competition and protect consumers and employees.

|  |  |
| --- | --- |
| A.  | socialism |

|  |  |
| --- | --- |
| B.  | *laissez-faire* capitalism |

|  |  |
| --- | --- |
| **C.**  | modified capitalism |

|  |  |
| --- | --- |
| D.  | communism |

|  |  |
| --- | --- |
| E.  | business ownership |

Because of its use of laws to regulate business and protect consumers, the American economic system can best be described as modified capitalism. |

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| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-03 Define economics and compare the four types of economic systems.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

**Essay Questions**

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| --- | --- |
| 46. | What are the three questions that all economic systems must answer? Who answers them under a communist system? A socialist system? A capitalist system?  The three economic questions are (1) What goods and services and how much of each will satisfy the needs of the consumer? (2) How will the goods and services be produced and who will produce them and with what resources? (3) How are the goods and services to be distributed to the consumer? Under a true communist system, these questions are answered by a central government planning committee. Under a true socialist system, a central government planning committee answers the questions for basic goods and industries, while the forces of supply and demand answer them for most other products. Within a capitalist system, competition, supply, and demand determine the answers. |

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| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-03 Define economics and compare the four types of economic systems.Level of Difficulty: 3 HardTopic: The Economic Foundations of Business* |

**True / False Questions**

|  |  |
| --- | --- |
| 47. | Demand is the quantity of goods and services that consumers are willing to buy at different prices at a specific time.  **TRUE**Usually, as prices decrease, consumers are willing to buy more of a good or service. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-04 Describe the role of supply; demand; and competition in a free-enterprise system.Level of Difficulty: 1 EasyTopic: The Economic Foundations of Business* |

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| --- | --- |
| 48. | The equilibrium price is represented by the point where a product's supply and demand curves intersect.  **TRUE**The price at which the number of products that businesses are willing to supply is equal to the amount of products that consumers are willing to buy at a specific point in time is the equilibrium price. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-04 Describe the role of supply; demand; and competition in a free-enterprise system.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

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| --- | --- |
| 49. | Monopolistic competition exists when there is only one producer of a product in a given market.  **FALSE**Monopolistic competition exists when there are fewer businesses than in a pure competition environment and the differences among the goods are small. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-04 Describe the role of supply; demand; and competition in a free-enterprise system.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

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| --- | --- |
| 50. | An oligopoly exists when there are many small businesses selling one standardized product.  **FALSE**An oligopoly exists when there are very few businesses selling a product. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-04 Describe the role of supply; demand; and competition in a free-enterprise system.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

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| --- | --- |
| 51. | A product's equilibrium price is constantly changing in response to changes in economic conditions, availability of resources, and degree of competition.  **TRUE**When costs to the supplier increase, the costs to the consumer also increase and demand decreases, and vice versa. |

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| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-04 Describe the role of supply; demand; and competition in a free-enterprise system.Level of Difficulty: 3 HardTopic: The Economic Foundations of Business* |

**Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 52. | \_\_\_\_ relates to the number of goods and services that consumers are willing to buy at different prices at a specific time.

|  |  |
| --- | --- |
| A.  | Supply |

|  |  |
| --- | --- |
| **B.**  | Demand |

|  |  |
| --- | --- |
| C.  | Elasticity |

|  |  |
| --- | --- |
| D.  | Equilibrium |

|  |  |
| --- | --- |
| E.  | Economics |

Demand is defined as the number of goods and services that consumers are willing to buy at different prices at a specific time. |

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| --- |
| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-04 Describe the role of supply; demand; and competition in a free-enterprise system.Level of Difficulty: 1 EasyTopic: The Economic Foundations of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 53. | The \_\_\_\_\_\_\_ is the price at which the number of products that businesses are willing to supply equals the number of products consumers are willing to purchase at a point in time.

|  |  |
| --- | --- |
| A.  | supply price |

|  |  |
| --- | --- |
| **B.**  | equilibrium price |

|  |  |
| --- | --- |
| C.  | demand price |

|  |  |
| --- | --- |
| D.  | demand curve |

|  |  |
| --- | --- |
| E.  | exact price |

Equilibrium price is defined as the price at which the number of products that businesses are willing to supply equals the number of products consumers are willing to purchase at a point in time. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-04 Describe the role of supply; demand; and competition in a free-enterprise system.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 54. | When Target has a sale on bed linens,

|  |  |
| --- | --- |
| A.  | consumers will not demand more than normal. |

|  |  |
| --- | --- |
| B.  | the store will not supply more linens than it normally does. |

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| --- | --- |
| **C.**  | consumers will demand more linens. |

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| --- | --- |
| D.  | the manufacturer will halt production. |

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| E.  | consumers will demand fewer linens than normal. |

Generally, when prices decrease consumers will increase demand. |

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| *AACSB: Reflective ThinkingBlooms: ApplyLearning Objective: 01-04 Describe the role of supply; demand; and competition in a free-enterprise system.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

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| 55. | When Apple introduced the iPad, the price of and demand for netbook and notebook computers were high. As a result,

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| **A.**  | other suppliers introduced competing products to take advantage of the demand. |

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| --- | --- |
| B.  | consumers stopped buying netpads. |

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| --- | --- |
| C.  | manufacturers stopped producing netpads. |

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| --- | --- |
| D.  | competition was not allowed to enter the market. |

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| E.  | the equilibrium price met supply. |

Although prices were high, demand was also high and therefore businesses have the potential for high profits. |

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| *AACSB: Reflective ThinkingBlooms: ApplyLearning Objective: 01-04 Describe the role of supply; demand; and competition in a free-enterprise system.Level of Difficulty: 3 HardTopic: The Economic Foundations of Business* |

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| 56. | Using the supply and demand curves shown in the graph that follows, what is the equilibrium price for soft drinks?

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| --- | --- |
| A.  | 35 cents |

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| --- | --- |
| B.  | 45 cents |

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| --- | --- |
| C.  | 50 cents |

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| --- | --- |
| **D.**  | 55 cents |

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| --- | --- |
| E.  | 75 cents |

The equilibrium price is where the supply and demand curves intersect. |

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| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-04 Describe the role of supply; demand; and competition in a free-enterprise system.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

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| 57. | When businesses can promote different features of their products and consumers are willing to pay more for products containing the features they desire, the competitive environment is probably

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| --- | --- |
| A.  | pure competition. |

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| --- | --- |
| **B.**  | monopolistic competition. |

|  |  |
| --- | --- |
| C.  | oligopoly. |

|  |  |
| --- | --- |
| D.  | monopoly. |

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| --- | --- |
| E.  | pure capitalism. |

Consumers value some features more than others and are often willing to pay higher prices for the feature they want. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-04 Describe the role of supply; demand; and competition in a free-enterprise system.Level of Difficulty: 1 EasyTopic: The Economic Foundations of Business* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 58. | Agricultural commodities are usually sold under which competitive environment?

|  |  |
| --- | --- |
| A.  | Monopoly |

|  |  |
| --- | --- |
| B.  | Monopolistic competition |

|  |  |
| --- | --- |
| **C.**  | Pure competition |

|  |  |
| --- | --- |
| D.  | Oligopoly |

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| E.  | Modified competition |

Because no one business sells enough agricultural commodities to influence the price and there are no difference among the commodities, prices are determined solely by supply and demand. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-04 Describe the role of supply; demand; and competition in a free-enterprise system.Level of Difficulty: 1 EasyTopic: The Economic Foundations of Business* |

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| 59. | \_\_\_\_\_\_\_\_\_\_\_ exists when there are many small businesses selling one standardized product.

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| --- | --- |
| A.  | Monopolistic competition |

|  |  |
| --- | --- |
| B.  | Oligopoly |

|  |  |
| --- | --- |
| **C.**  | Pure competition |

|  |  |
| --- | --- |
| D.  | Monopoly |

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| --- | --- |
| E.  | Market structure |

Pure competition is the market structure that exists when there are many businesses selling one standardized product. |

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| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-04 Describe the role of supply; demand; and competition in a free-enterprise system.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

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| 60. | When there is only one business providing a product in a given market, there exists

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| A.  | an oligopoly. |

|  |  |
| --- | --- |
| B.  | unfair competition. |

|  |  |
| --- | --- |
| C.  | pure competition. |

|  |  |
| --- | --- |
| D.  | monopolistic competition. |

|  |  |
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| **E.**  | a monopoly. |

A monopoly exists where there is just one business providing a product in a given market. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-04 Describe the role of supply; demand; and competition in a free-enterprise system.Level of Difficulty: 1 EasyTopic: The Economic Foundations of Business* |

**Essay Questions**

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| 61. | Define supply, demand, and equilibrium price, and explain their relationship with each other.  Supply is the quantity of goods or services that businesses are willing to sell at different prices at a specific time. Demand is the quantity of goods or services that consumers are willing to buy at different prices at a specific time. Both can be shown graphically with supply and demand curves. Where the supply and demand curves intersect is the equilibrium price, the price at which the quantity of products businesses are willing to supply equals the quantity of products consumers are willing to buy at a specific point in time. If economic conditions, resource availability, degree of competition, or some other factor changes either supply or demand, a new equilibrium price will be established. |

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| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-04 Describe the role of supply; demand; and competition in a free-enterprise system.Level of Difficulty: 3 HardTopic: The Economic Foundations of Business* |

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| 62. | Define competition, and describe the different forms it can take.  Competition, the rivalry among businesses for consumers' dollars, is another vital element in free enterprise. Pure competition exists when there are many small businesses selling one standardized product, such as agricultural commodities like wheat, corn, and cotton. Monopolistic competition exists when there are fewer businesses than in a pure-competition environment and the differences among the goods they sell are small. An oligopoly exists when there are very few businesses selling a product. In an oligopoly, individual businesses have control over their products' price because each business supplies a large portion of the products sold in the marketplace. Where there is just one business supplying a product for a given market, a monopoly exists. Monopolies may be permitted because the cost of developing or supplying the product may be so great that new firms could not compete. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-04 Describe the role of supply; demand; and competition in a free-enterprise system.Level of Difficulty: 3 HardTopic: The Economic Foundations of Business* |

**True / False Questions**

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| 63. | Economic expansion occurs when an economy is growing and people are spending more money.  **TRUE**When people spend more money, it stimulates the production of goods and services which in turn stimulates employment. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-05 Specify why and how the health of the economy is measured.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

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| 64. | The standard of living rises because people have less money to spend.  **FALSE**The standard of living rises because people have more money to spend. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-05 Specify why and how the health of the economy is measured.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

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| 65. | A severe recession may turn into a depression.  **TRUE**A depression has very high unemployment, very low consumer spending, and business output is sharply reduced. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-05 Specify why and how the health of the economy is measured.Level of Difficulty: 1 EasyTopic: The Economic Foundations of Business* |

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| 66. | Gross domestic product is the sum of all goods and services produced in a country during a year.  **TRUE**GDP is one of the measurements that countries use to gauge the health of their economies. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-05 Specify why and how the health of the economy is measured.Level of Difficulty: 1 EasyTopic: The Economic Foundations of Business* |

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| 67. | When a nation takes more from taxes than it spends, it has a budget deficit.  **FALSE**The relationship between its spending and income (from taxes) determines if a country has a budget deficit, surplus or balanced budget. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-05 Specify why and how the health of the economy is measured.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

**Multiple Choice Questions**

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| 68. | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ can be harmful if individuals' incomes do not increase at the same pace as rising prices because it reduces their buying power.

|  |  |
| --- | --- |
| A.  | Deflation |

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| --- | --- |
| B.  | Stagflation |

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| --- | --- |
| **C.**  | Inflation |

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| --- | --- |
| D.  | Economic expansion |

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| --- | --- |
| E.  | Economic contraction |

Inflation can be harmful if individuals' incomes do not increase at the same pace as rising prices because it reduces their buying power. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-05 Specify why and how the health of the economy is measured.Level of Difficulty: 1 EasyTopic: The Economic Foundations of Business* |

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| 69. | Economic expansion occurs when

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| A.  | fewer goods and services are produced than consumers demand. |

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| **B.**  | an economy is growing and people are spending more money. |

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| C.  | a nation's standard of living drops quickly. |

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| D.  | employment levels decline over time. |

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| E.  | prices begin to rise and incomes begin to fall. |

When people spend more money, it stimulates the production of goods and services which in turn stimulates employment. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-05 Specify why and how the health of the economy is measured.Level of Difficulty: 1 EasyTopic: The Economic Foundations of Business* |

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| 70. | A continuing rise in prices over a period of time refers to

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| --- | --- |
| **A.**  | inflation. |

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| --- | --- |
| B.  | economic expansion. |

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| --- | --- |
| C.  | a recession. |

|  |  |
| --- | --- |
| D.  | economic contraction. |

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| E.  | deflation. |

When economies expand rapidly, prices may as well. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-05 Specify why and how the health of the economy is measured.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

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| 71. | Economic contraction occurs when

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| --- | --- |
| A.  | spending increases. |

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| --- | --- |
| **B.**  | spending declines. |

|  |  |
| --- | --- |
| C.  | jobs increase. |

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| --- | --- |
| D.  | inflation decreases. |

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| E.  | unemployment falls. |

In an economic contraction, businesses cut back on production and lay off workers, raising unemployment. Rising unemployment tends to stifle spending. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-05 Specify why and how the health of the economy is measured.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

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| 72. | Countries measure the state of their economies to

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| **A.**  | determine whether they are expanding or contracting. |

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| B.  | regulate wages and employment. |

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| C.  | let other nations know the state of their economic health. |

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| --- | --- |
| D.  | avoid taking corrective action. |

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| E.  | control government spending. |

In order for a country to take corrective action or minimize economic fluctuations, it must first measure the state of its economy. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-05 Specify why and how the health of the economy is measured.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

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| 73. | Increased unemployment can reduce consumer demand for goods and services, leading to

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| A.  | economic expansion. |

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| --- | --- |
| B.  | inflation. |

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| --- | --- |
| **C.**  | deflation. |

|  |  |
| --- | --- |
| D.  | a budget deficit. |

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| --- | --- |
| E.  | recovery. |

In an economic contraction people spend less money which can lead to deflation or decrease in market prices. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-05 Specify why and how the health of the economy is measured.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

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| 74. | A budget surplus, when a nation spends less than it takes in from taxes, is the opposite of a(n)

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| A.  | stagnant income. |

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| --- | --- |
| **B.**  | budget deficit. |

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| --- | --- |
| C.  | economic expansion. |

|  |  |
| --- | --- |
| D.  | balance of trade. |

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| --- | --- |
| E.  | economic contraction. |

A budget deficit spends more than it takes from taxes. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-05 Specify why and how the health of the economy is measured.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

**Essay Questions**

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| 75. | What is an economic contraction, and what can it lead to?  Economic contraction occurs when spending declines. Businesses cut back on production and lay off workers, and the economy as a whole slows down. Contractions of the economy lead to recession—a decline in production, employment, and income. Recessions are often characterized by rising levels of unemployment, which is measured as the percentage of the population that wants to work but is unable to find jobs. |

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| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-05 Specify why and how the health of the economy is measured.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

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| 76. | Discuss the issues involved in measuring a country's economy.  Countries measure the state of their economies to determine whether they are expanding or contracting and whether corrective action is necessary to minimize fluctuations. One commonly used measure is gross domestic product (GDP), the sum of all goods and services produced in a country during a year. Another important indicator of a nation's economic health is the relationship between its spending and income (from taxes). |

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| *AACSB: Reflective ThinkingBlooms: UnderstandLearning Objective: 01-05 Specify why and how the health of the economy is measured.Level of Difficulty: 2 MediumTopic: The Economic Foundations of Business* |

**True / False Questions**

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| 77. | The Industrial Revolution brought increasing prosperity and propelled the United States into a manufacturing economy.  **TRUE**The Industrial Revolution brought the new development of technologies and factories. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.Level of Difficulty: 1 EasyTopic: The American Economy* |

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| 78. | After World War II, the United States became an agricultural economy.  **FALSE**After World War II, the United States became a service-based economy. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.Level of Difficulty: 1 EasyTopic: The American Economy* |

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| 79. | Advertising first made consumers aware of differences in products and prices in the marketing economy.  **TRUE**Following the manufacturing economy, businesses became more concerned with the needs of the consumer and entered the marketing economy. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.Level of Difficulty: 2 MediumTopic: The American Economy* |

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| 80. | Entrepreneurs risk their wealth, time, and effort to develop for profit an innovative product or way of doing something.  **TRUE**Big companies such as Microsoft and Wal-Mart started out with an entrepreneur (Bill Gates and Sam Walton in this example) who risked their wealth, and expended large amounts of time and effort. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.Level of Difficulty: 1 EasyTopic: The American Economy* |

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| 81. | Thomas Edison was an American entrepreneur.  **TRUE**Early American entrepreneurs were usually inventors, such as Thomas Edison. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.Level of Difficulty: 1 EasyTopic: The American Economy* |

**Multiple Choice Questions**

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| 82. | The early economy of the United States was marked by colonists who operated a society based primarily on

|  |  |
| --- | --- |
| A.  | manufacturing. |

|  |  |
| --- | --- |
| B.  | technology. |

|  |  |
| --- | --- |
| C.  | sweat shops. |

|  |  |
| --- | --- |
| D.  | information. |

|  |  |
| --- | --- |
| **E.**  | agriculture. |

The North American colonists operated as an agricultural society producing everything they needed at home. |

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| *AACSB: TechnologyBlooms: RememberLearning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.Level of Difficulty: 1 EasyTopic: The American Economy* |

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| 83. | All of the following are associated with the Industrial Revolution *except*

|  |  |
| --- | --- |
| A.  | cotton gins. |

|  |  |
| --- | --- |
| B.  | railroads. |

|  |  |
| --- | --- |
| C.  | farm equipment. |

|  |  |
| --- | --- |
| **D.**  | computers. |

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| --- | --- |
| E.  | assembly lines. |

Computers came after World War II during the service economy. |

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| *AACSB: TechnologyBlooms: UnderstandLearning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.Level of Difficulty: 1 EasyTopic: The American Economy* |

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| 84. | In the history of the American economy, the period or stage following the Industrial Revolution was known for its emphasis on

|  |  |
| --- | --- |
| A.  | service. |

|  |  |
| --- | --- |
| B.  | technology. |

|  |  |
| --- | --- |
| **C.**  | manufacturing. |

|  |  |
| --- | --- |
| D.  | agriculture. |

|  |  |
| --- | --- |
| E.  | information. |

The Industrial Revolution brought factories and therefore the American economy gradually became a manufacturing economy. |

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| *AACSB: TechnologyBlooms: RememberLearning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.Level of Difficulty: 2 MediumTopic: The American Economy* |

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| 85. | The entrepreneur has been primarily associated with willingness to

|  |  |
| --- | --- |
| A.  | stay conventional. |

|  |  |
| --- | --- |
| B.  | follow others. |

|  |  |
| --- | --- |
| **C.**  | take risks. |

|  |  |
| --- | --- |
| D.  | be repetitive. |

|  |  |
| --- | --- |
| E.  | be conservative. |

An entrepreneur risks his or her wealth, time, and effort. |

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| *AACSB: Reflective ThinkingBlooms: RememberLearning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.Level of Difficulty: 2 MediumTopic: The American Economy* |

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| 86. | Trends have gradually changed the U.S. to a(n) \_\_\_\_\_ economy focused on making life easier for busy consumers.

|  |  |
| --- | --- |
| A.  | manufacturing |

|  |  |
| --- | --- |
| **B.**  | service |

|  |  |
| --- | --- |
| C.  | agriculture |

|  |  |
| --- | --- |
| D.  | technology |

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| --- | --- |
| E.  | marketing |

As consumers get busier and earn more money, they hire others to do tasks such as house cleaning, laundry, and landscaping. |

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| *AACSB: TechnologyBlooms: RememberLearning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.Level of Difficulty: 1 EasyTopic: The American Economy* |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 87. | All of the following are associated with the manufacturing and marketing economies *except*

|  |  |
| --- | --- |
| A.  | buying on credit. |

|  |  |
| --- | --- |
| B.  | widespread use of assembly lines. |

|  |  |
| --- | --- |
| C.  | advertising. |

|  |  |
| --- | --- |
| **D.**  | farming. |

|  |  |
| --- | --- |
| E.  | marketing research. |

Farming is best associated with the early economy of the United States. Buying on credit, marketing, advertising, and marketing research grew out of the manufacturing and marketing economies. |

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| *AACSB: TechnologyBlooms: UnderstandLearning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.Level of Difficulty: 1 EasyTopic: The American Economy* |

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| 88. | What is the primary lesson to be learned from the economic scandals of the early 21st century?

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| --- | --- |
| A.  | Businesses' reputations depend on their profits. |

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| --- | --- |
| B.  | Public confidence in corporate America depends on companies' bottom lines. |

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| --- | --- |
| C.  | Most businesses can focus on their bottoms lines to the exclusion of other factors. |

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| --- | --- |
| **D.**  | Ethical conduct and corporate social responsibility are very important. |

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| E.  | Executives who engage in misconduct are likely to get away with it if it enhances their firms' profits. |

One of the primary lessons to be learned from recent scandals is that businesses must focus on more than their bottoms lines; ethical conduct and concern for the welfare of others are also important. |

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| *AACSB: EthicsBlooms: UnderstandLearning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.Level of Difficulty: 2 MediumTopic: The American Economy* |

**Essay Questions**

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| 89. | Why are entrepreneurs important to the economy?  Entrepreneurs are important to the economy because they are willing to take the risks necessary to bring ideas for new goods, services, and business practices into the marketplace. They bring together all the factors of production to produce new products. |

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| *AACSB: Reflective ThinkingBlooms: ApplyLearning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.Level of Difficulty: 1 EasyTopic: The American Economy* |

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| 90. | Are there signs that business ethics are improving over time? If so, what are they? If not, what areas need improvement?  Studies have indicated that the presence of well-implemented ethics programs in corporations has increased recently. Well-implemented ethics and compliance programs dramatically increase the reporting of observed misconduct and help to decrease incidences of misconduct. However, companies need to continue to be vigilant and to increase efforts as long as employees continue to observe and report misconduct in the workplace. Companies must continue to improve efforts to increase ethical standards, so long as there is pressure on workers to commit misconduct. |

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| *AACSB: EthicsBlooms: ApplyLearning Objective: 01-06 Trace the evolution of the American economy and discuss the role of the entrepreneur in the economy.Level of Difficulty: 3 HardTopic: The American Economy* |

**Multiple Choice Questions**

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| 91. | Shelly's business was successful for all of the following reasons *except*

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| A.  | quality product. |

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| B.  | appropriate incentives for employees. |

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| C.  | productive employees. |

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| D.  | employees who enjoyed being part of a new business. |

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| **E.**  | she had no competitors. |

Mrs. Acres Pies was successful because it offered a quality product and had productive employees who were motivated by incentives and who enjoyed being part of a successful business. |

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| *AACSB: AnalyticBlooms: ApplyLearning Objective: 01-07 Evaluate a small-business owner's situation and propose a course of action.Level of Difficulty: 1 EasyTopic: Solve the Dilemma* |

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| 92. | After demand began to accelerate beyond supply, Mrs. Acres Homemade Pies was faced with a series of options. Which of the following is *not* one of those options?

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| A.  | Maintain current production levels and raise prices |

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| B.  | Expand the facility and staff while maintaining price |

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| C.  | Contract the production of pies to a national restaurant chain |

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| **D.**  | Maintain current levels of product and reduce the price |

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| E.  | Increase production and maintain the price |

“Maintaining current levels of product and reducing the price” would increase demand and do nothing to help solve the problem of insufficient supply. |

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| *AACSB: AnalyticBlooms: ApplyLearning Objective: 01-07 Evaluate a small-business owner's situation and propose a course of action.Level of Difficulty: 2 MediumTopic: Solve the Dilemma* |

**Essay Questions**

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| 93. | Explain and demonstrate the relationship between supply and demand for Mrs. Acres Homemade Pies.  When Shelly Acres started selling her pies, she had to find her own customers. None of the local restaurants and supermarkets knew her products, so she had to offer an affordable product to interest restaurants and supermarkets in her products. As demand increased, Shelly started producing more pies to meet this demand. At the moment, she cannot supply all the demand. A way to decrease this demand is to increase prices. She can also increase the production level to meet the demand. |

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| *AACSB: AnalyticBlooms: ApplyLearning Objective: 01-07 Evaluate a small-business owner's situation and propose a course of action.Level of Difficulty: 3 HardTopic: Solve the Dilemma* |

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| 94. | What challenges does Shelly face as she considers the three options?  The first option implies that Shelly's company is not going to grow since its current size will be maintained by keeping an artificially high price. The second solution requires Shelly to find the resources to finance the expansion of her activities. The third option leads Shelly to lose her specific know-how by providing it to the national restaurant chain. It also implies that Shelly does not own her business any longer. |

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| *AACSB: AnalyticBlooms: ApplyLearning Objective: 01-07 Evaluate a small-business owner's situation and propose a course of action.Level of Difficulty: 2 MediumTopic: Solve the Dilemma* |

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| 95. | What would you do in Shelly's position?  Answers will vary, but students should be able to defend the choices they have made. |

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| *AACSB: AnalyticBlooms: ApplyLearning Objective: 01-07 Evaluate a small-business owner's situation and propose a course of action.Level of Difficulty: 2 MediumTopic: Solve the Dilemma* |