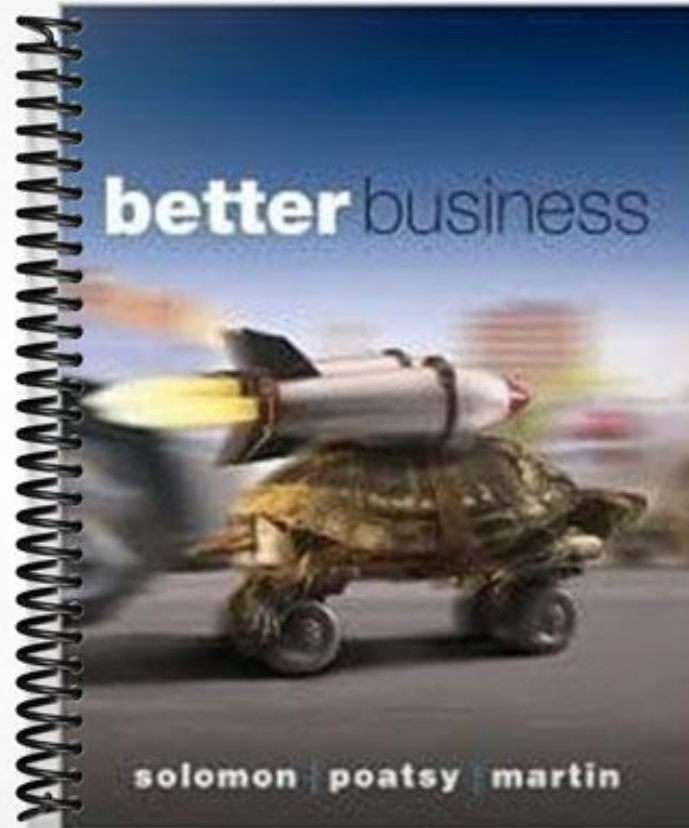


TEST BANK



solomon | poatsy | martin

Better Business (Poatsy) [Testbank B]
Chapter 2 Economics and Banking

- 1) The exchange of goods and services between people is a practical example of
- A) give and take.
 - B) product and producer.
 - C) buyer and investment.
 - D) supply and demand.

Answer: D

Diff: 1 Page Ref: 31

Objective: What is economics, and what are the different types of economic systems?

- 2) At its basic level, the economic concept of supply and demand determines
- A) how communist-based economies converted to capitalism.
 - B) how goods and services are priced.
 - C) how products are manufactured, stored, and distributed.
 - D) how business moguls establish commercial empires.

Answer: B

Explanation: B) Economics is the study of how decisions are made to best fit the wants and needs of people in society. To do this, economists study the exchange of products and services in the marketplace, and its effect on the economy at large.

Diff: 2 Page Ref: 31

Objective: What is economics, and what are the different types of economic systems?

- 3) The study of economics aims to find a balance between supply and demand through
- A) centralization of the national economy.
 - B) allocation of scarce resources.
 - C) mobilization of the labor force.
 - D) privatization of government resources.

Answer: B

Explanation: B) The basic goal of economics is to determine how best to meet the wants and needs of society. Economists try to determine how to balance the demand for a good or service with the actual supply available.

Diff: 2 Page Ref: 31

Objective: What is economics, and what are the different types of economic systems?

- 4) Which of the following is a basic study of economics?
- A) Traditional economics
 - B) Macroeconomics
 - C) Market economics
 - D) Mixed economics

Answer: B

Diff: 1 Page Ref: 31

Objective: What is economics, and what are the different types of economic systems?

5) When you study microeconomics, you study

- A) consumer trends.
- B) production schedules.
- C) inflation rates.
- D) traditional economies.

Answer: A

Explanation: A) Microeconomics is the study of individuals businesses, households, and consumers make decisions with their limited supply of resources.

Diff: 2 Page Ref: 32

Objective: What is economics, and what are the different types of economic systems?

6) The study of how businesses, households, and consumers make decisions about how to spend their money is called

- A) microeconomics.
- B) macroeconomics.
- C) mixed economies.
- D) market economies.

Answer: A

Diff: 1 Page Ref: 32

Objective: What is economics, and what are the different types of economic systems?

7) Which of these situations demonstrate a microeconomic analysis?

- A) A toy manufacturer adjusting the price of toys after looking at prices of similar toys made by a competitor
- B) A farmer calculating the cost of delivering goods to the city after an increase in the price of fuel
- C) A shoe factory owner thinking about purchasing extra warehouses after an increase in mortgage interest rates put more warehouses on sale
- D) A real estate developer researching current home loan interest rates to help determine whether to increase the price levels on house and lot packages

Answer: A

Explanation: B) Microeconomics is the study of how individual businesses make decisions based on the principles of supply and demand.

Diff: 2 Page Ref: 32

Objective: What is economics, and what are the different types of economic systems?

8) The owner of a newly opened clothing retail store is doing market research. Which piece of research data is the result of a macroeconomic analysis?

- A) Figuring out dates for promotional sales based on sale dates in other clothing stores in the area
- B) Identifying fashion trends for the current season
- C) Identifying fluctuating interest rates for major credit cards the store accepts
- D) Figuring out demographic statistics for wealthy women who frequent nearby shops

Answer: C

Explanation: C) Macroeconomics analyzes economy-wide occurrences such as changes in interest rates.

Diff: 2 Page Ref: 32

Objective: What is economics, and what are the different types of economic systems?

9) In a socialist economy, the focus of production is on

- A) fair and equal distribution.
- B) efficiency and profitability.
- C) quality over quantity.
- D) supplying an infinite demand.

Answer: A

Explanation: A) In a socialist economy, production focuses on making sure that everyone has an equal and adequate distribution of goods and services.

Diff: 2 Page Ref: 32

Objective: What is economics, and what are the different types of economic systems?

10) Another name for a planned economy is

- A) a designed economy.
- B) a governed economy.
- C) an organized economy.
- D) a controlled economy.

Answer: D

Diff: 1 Page Ref: 32

Objective: What is economics, and what are the different types of economic systems?

11) In a mixed economy, production is determined by

- A) consumer needs and wants.
- B) government or a centralized group.
- C) individuals and private firms.
- D) both individuals and the government.

Answer: D

Diff: 1 Page Ref: 32

Objective: What is economics, and what are the different types of economic systems?

12) In a market economy, individual income

- A) determines purchasing decisions for some goods and services.
- B) determines purchasing decisions for all goods and services.
- C) is dictated by the government or a centralized group.
- D) is distributed commonly to all citizens by the government.

Answer: B

Diff: 1 Page Ref: 32

Objective: What is economics, and what are the different types of economic systems?

13) A few years ago, Herbert underwent a cornea transplant that was paid for by the state. His experience inspired him to become a doctor, and he is now attending the top state university for free. Which type of economy typically reflects Herbert's situation?

- A) Planned economy
- B) Mixed economy
- C) Market economy
- D) Traditional economy

Answer: A

Explanation: A) In a planned economy, the government chooses which goods and services are provided, and how they are produced and distributed. In this situation, the government paid for Herbert's transplant and his education, so the government chose what services he would receive.

Diff: 3 Page Ref: 32

Objective: What is economics, and what are the different types of economic systems?

14) Traditional economies, which are based on a strong social network, are mostly found in

- A) present-day commercial societies.
- B) 18th-century industrial cities.
- C) early agrarian communities.
- D) online business communities.

Answer: C

Diff: 1 Page Ref: 32

Objective: What is economics, and what are the different types of economic systems?

15) A macroeconomist would most likely be concerned with

- A) how a change in the market affects the overall economy.
- B) how differences between the prices of certain brands may help generate sales.
- C) how the number of products already for sale in the local market would affect business.
- D) how consumers use their limited resources in exchange of goods.

Answer: A

Explanation: A) Macroeconomists would look at the bigger picture rather than the decisions of individual businesses, households, and consumers.

Diff: 2 Page Ref: 32

Objective: What is economics, and what are the different types of economic systems?

16) In which type of economic system does the government have total control over all economic decisions?

- A) Capitalism
- B) Socialism
- C) Communism
- D) Centralization

Answer: C

Explanation: C) In a communist economic system, the government takes control of everything so that they can equally and adequately redistribute the wealth among its citizens.

Diff: 2 Page Ref: 33

Objective: What is economics, and what are the different types of economic systems?

17) Which type of economy grants the government total control over the distribution of goods and services?

- A) Traditional economy
- B) Planned economy
- C) Market economy
- D) Mixed economy

Answer: B

Explanation: B) In a planned economy, the government chooses how goods and services are distributed amongst consumers and businesses.

Diff: 2 Page Ref: 33

Objective: What is economics, and what are the different types of economic systems?

18) Karl Marx's writings influenced the principles of which economic system?

- A) Capitalism
- B) Socialism
- C) Communism
- D) Democracy

Answer: C

Diff: 1 Page Ref: 33

Objective: What is economics, and what are the different types of economic systems?

19) Which country has a communist-based economy?

- A) Japan
- B) Russia
- C) United Kingdom
- D) Cuba

Answer: D

Diff: 1 Page Ref: 33

Objective: What is economics, and what are the different types of economic systems?

20) Privatization is defined as

- A) turnover of privately owned businesses to the government.
- B) conversion of government-controlled services to private enterprises.
- C) liquidation of government assets as payment to private firms.
- D) leasing the services of private companies to control portions of the government.

Answer: B

Diff: 1 Page Ref: 33

Objective: What is economics, and what are the different types of economic systems?

21) In a true socialist system, the total control of the government over wages and earnings may result in

- A) few to no state-sponsored services.
- B) increased spending and early retirement.
- C) citizens working two or more jobs.
- D) diminishing motivation for workers.

Answer: D

Explanation: D) When the state collects all earnings and profits, motivation decreases because there is no incentive for the workers in a socialist system to work hard.

Diff: 2 Page Ref: 33

Objective: What is economics, and what are the different types of economic systems?

- 22) Both buyers and sellers exercising freedom of choice is a characteristic of a(n)
- A) socialist economy.
 - B) market economy.
 - C) agrarian economy.
 - D) poor economy.

Answer: B

Diff: 1 Page Ref: 33

Objective: What is economics, and what are the different types of economic systems?

- 23) According to Karl Marx, the ideal communist economy has
- A) workers providing services in place of a government.
 - B) government providing services on behalf of workers.
 - C) abundant resources owned and controlled by government.
 - D) the economy overhauled when goods and services are in short supply.

Answer: A

Explanation: A) Marx believed that workers would choose to do things that best benefited other workers, and therefore be more equal than a centralized government would be.

Diff: 2 Page Ref: 33

Objective: What is economics, and what are the different types of economic systems?

- 24) The state is able to provide services for people in a socialist economy by
- A) charging higher tax rates.
 - B) giving these services for free.
 - C) incurring debts from other countries.
 - D) collecting money from their officials.

Answer: A

Diff: 1 Page Ref: 33

Objective: What is economics, and what are the different types of economic systems?

- 25) _____ is a major influence in the Western world's economic systems.
- A) Socialism
 - B) Capitalism
 - C) Communism
 - D) Privatization

Answer: B

Diff: 1 Page Ref: 33

Objective: What is economics, and what are the different types of economic systems?

- 26) Most economic systems today are
- A) mixed economies.
 - B) market economies.
 - C) planned economies.
 - D) traditional economies.

Answer: A

Diff: 1 Page Ref: 34

Objective: What is economics, and what are the different types of economic systems?

- 27) Even though it exercises some government oversight, the U.S. economy is closest to a
- A) socialist economy.
 - B) capitalist economy.
 - C) traditional economy.
 - D) communist economy.

Answer: B

Diff: 1 Page Ref: 34

Objective: What is economics, and what are the different types of economic systems?

- 28) The concept of currency was developed to offset some difficulties involved with
- A) bartering.
 - B) auctioning.
 - C) buying and selling.
 - D) supply and demand.

Answer: A

Diff: 1 Page Ref: 35

Objective: What are the principles of supply and demand and the factors that affect each principle?

- 29) Currency provides a consistent standard with its value based on an underlying
- A) commodity.
 - B) agreement.
 - C) commitment.
 - D) accommodation.

Answer: A

Diff: 1 Page Ref: 35

Objective: What are the principles of supply and demand and the factors that affect each principle?

- 30) How was the price of a good determined in the days of bartering?
- A) By the worth of each good
 - B) By the needs of each party involved
 - C) By comparison against the cheapest good
 - D) By finding the middle ground between the cheapest and most expensive good

Answer: B

Explanation: B) Based on how much someone needs a particular good or service, value changes. The greater the need, the greater the value.

Diff: 2 Page Ref: 35

Objective: What are the principles of supply and demand and the factors that affect each principle?

- 31) What do economists do when they conduct an analysis with "all else held constant"?
- A) They combine the basics and the factors to reach a conclusion.
 - B) They examine the fundamentals and ignore other factors.
 - C) They state a constant cost over specified variables and then analyze.
 - D) They create a mathematical calculation with a fixed value on products and services.

Answer: B

Explanation: B) Economists say "all else held constant" as a way to focus on a specific factor without taking into account all the other possible factors that might affect a process. By keeping these factors constant, the economist can see how the factor he or she is focusing on figures into the process.

Diff: 2 Page Ref: 35

Objective: What are the principles of supply and demand and the factors that affect each principle?

32) What is market price?

- A) The preferred price of the public that is approved by the price regulatory board
- B) The agreed retail cost of a good or service by the competitors in the public market
- C) The basic value of a commodity excluding other factors such as resource cost or manpower costs
- D) The price at which everyone who wants the item can get it without anyone wanting more or without any of the item being left over

Answer: D

Diff: 1 Page Ref: 35

Objective: What are the principles of supply and demand and the factors that affect each principle?

33) Which of the following is an example of bartering?

- A) Standing first in line to possess the latest gadget
- B) Purchasing a dozen CDs to sell at a raised price
- C) Trading milk from your cow for eggs from your neighbor's chicken
- D) Making a high bid in order to have a better chance of purchasing an antique vase

Answer: C

Explanation: B) In a bartering system, both parties trade something of equal value so that both go home with what they need or want. In this case, you get eggs while your neighbor gets milk.

Diff: 2 Page Ref: 35

Objective: What are the principles of supply and demand and the factors that affect each principle?

34) People who compete for items in auctions are called

- A) bidders.
- B) traders.
- C) collectors.
- D) purchasers.

Answer: A

Diff: 1 Page Ref: 36

Objective: What are the principles of supply and demand and the factors that affect each principle?

35) Why do prices become lower when identical items are auctioned?

- A) Because the supply and demand are equal
- B) Because the demand becomes higher than the supply
- C) Because the supply increases without an equal increase in the demand
- D) Because the demand and supply are kept unknown

Answer: C

Explanation: C) When demand is higher than supply, people will be willing to spend more money to get that item. In auctioning, there is a very limited supply, so prices will quickly rise if the item is highly desirable.

Diff: 2 Page Ref: 36

Objective: What are the principles of supply and demand and the factors that affect each principle?

36) What was developed to make the exchange of goods and services more consistent and equitable?

- A) currency
- B) market price
- C) price regulation
- D) trade

Answer: A

Diff: 1 Page Ref: 36

Objective: What are the principles of supply and demand and the factors that affect each principle?

37) What is supply?

- A) The amount of goods available for purchase at any given time
- B) The amount of goods people want to buy at any given time
- C) The amount of excess goods that people are willing to take away
- D) The amount of excess goods that a producer is willing to give away

Answer: A

Diff: 1 Page Ref: 36

Objective: What are the principles of supply and demand and the factors that affect each principle?

38) The _____ states that as the price of a good increases, the amount supplied increases.

- A) law of supply
- B) law of increase
- C) law of amounts
- D) law of goods

Answer: A

Diff: 1 Page Ref: 36

Objective: What are the principles of supply and demand and the factors that affect each principle?

39) Which of the following is a supply resource?

- A) Labor
- B) Country
- C) Currency
- D) Technology

Answer: A

Diff: 1 Page Ref: 36

Objective: What are the principles of supply and demand and the factors that affect each principle?

40) eBay is an example of

- A) bartering.
- B) auctioning.
- C) purchasing.
- D) buying and selling.

Answer: B

Diff: 1 Page Ref: 36

Objective: What are the principles of supply and demand and the factors that affect each principle?

41) The _____ illustrates the incentive to supply more of an item as the price increases.

- A) supply table
- B) supply curve
- C) demand table
- D) demand curve

Answer: B

Diff: 1 Page Ref: 37

Objective: What are the principles of supply and demand and the factors that affect each principle?

42) What is demand?

- A) The amount of goods that people want to buy at any given time
- B) The amount of goods available for purchase at any given time
- C) The amount of excess goods that people are willing to take away
- D) The amount of excess goods that a producer is willing to give away

Answer: A

Diff: 1 Page Ref: 37

Objective: What are the principles of supply and demand and the factors that affect each principle?

43) What is the demand curve?

- A) A formula used by economists to calculate price based on supply and demand levels
- B) A graph used by economists to illustrate the relationship between demand and price
- C) A term used by economists to describe the effects of increasing demand against supply price
- D) A figure used by economists to express the paradox between consumer demand and producer price

Answer: B

Diff: 1 Page Ref: 37

Objective: What are the principles of supply and demand and the factors that affect each principle?

44) What is a surplus?

- A) Wasted goods
- B) Excess supply
- C) Overpriced items
- D) Unwanted product or service

Answer: B

Explanation: B) Supply that is not used up is called surplus. Surplus often happens when the supply of a good or service is higher than the demand.

Diff: 2 Page Ref: 37

Objective: What are the principles of supply and demand and the factors that affect each principle?

45) When does a shortage occur?

- A) When manpower does not exist
- B) When surplus is not taken care of
- C) When supply is greater than demand
- D) When demand is greater than supply

Answer: D

Diff: 1 Page Ref: 37

Objective: What are the principles of supply and demand and the factors that affect each principle?

- 46) What is a determinant of supply?
- A) A person that takes care of supply
 - B) An object that is supplied to consumers
 - C) Property that is demanded by suppliers
 - D) A factor that can create a change in supply

Answer: D

Diff: 1 Page Ref: 38

Objective: What are the principles of supply and demand and the factors that affect each principle?

- 47) A positive impact on supply is described by a shift of the supply curve to the
- A) top.
 - B) left.
 - C) right.
 - D) bottom.

Answer: C

Diff: 1 Page Ref: 38

Objective: What are the principles of supply and demand and the factors that affect each principle?

- 48) Equilibrium price is illustrated in a
- A) consumer price watch.
 - B) supply and demand curve.
 - C) stock market exchange index.
 - D) credit-and-debit account book.

Answer: B

Diff: 1 Page Ref: 38

Objective: What are the principles of supply and demand and the factors that affect each principle?

- 49) What is price expectation?
- A) A producer's ideal product or service cost
 - B) A producer's best guess at the future price of a good
 - C) A consumer's expected amount of the future price of a good
 - D) A consumer's most likely anticipated price of a product or service

Answer: B

Explanation: B) Price expectation is a producer's estimate of how much a future good will cost. This estimate is based on current demand as well as supply and production capabilities.

Diff: 2 Page Ref: 39

Objective: What are the principles of supply and demand and the factors that affect each principle?

- 50) A local woodcraft store in Adam's neighborhood shut down, and now there is only one store that still carries the products he and other craftsmen need. What logically happens next?
- A) The supply of the products also decreases.
 - B) The demand for the products at the remaining store skyrockets.
 - C) Ownership for the products becomes a paramount concern for craftsmen.
 - D) Monopoly of the products remains on the leading competitor.

Answer: B

Explanation: B) The principles of supply and demand indicate that when supply decreases, demand increases. Because there is only one place where Adam and other craftsmen can get the supplies they need, they will have to go to that store, which means the store will have a great demand for those products.

Diff: 3 Page Ref: 39

Objective: What are the principles of supply and demand and the factors that affect each principle?

- 51) What are complementary goods?
- A) Products or services that cannot exist without the other
 - B) Products or services that must be bought at exactly the same time
 - C) Products or services that go with each other and are consumed together
 - D) Products or services that are used with the other and are both replaced when one is consumed

Answer: C

Diff: 1 Page Ref: 40

Objective: What are the principles of supply and demand and the factors that affect each principle?

- 52) What most likely happens when the economy enters a recession?
- A) The supply for some goods and services decreases.
 - B) The demand for some goods and services decreases.
 - C) The supply for some goods and services increases.
 - D) The demand for some goods and services increases.

Answer: B

Explanation: B) When the economy is in a recession, people are less likely to want to spend money. So, the demand for goods and services decreases while the economy is in a recession.

Diff: 2 Page Ref: 40

Objective: What are the principles of supply and demand and the factors that affect each principle?

- 53) Which service is most likely affected by seasonal changes?
- A) Amusement and party favors
 - B) Fitness programs in exclusive gyms
 - C) Spa and full-body massage services
 - D) Vacation rentals in resort communities

Answer: D

Diff: 1 Page Ref: 40

Objective: What are the principles of supply and demand and the factors that affect each principle?

54) What is consumer preference?

- A) Demand for a product by the elite members of society
- B) Demand for a product based on what is currently popular
- C) Demand for a product based on what is currently a necessity
- D) Demand for a product by the middle to lower-class members of society

Answer: B

Diff: 1 Page Ref: 40

Objective: What are the principles of supply and demand and the factors that affect each principle?

55) What are substitute goods?

- A) Goods that can be used in place of others
- B) Goods that can be modified in place of others
- C) Goods that can be bought to supplement the effects of others
- D) Goods that can be purchased to offset the weakness of others

Answer: A

Explanation: A) Substitute goods are goods that can be used in place of another good. The generic good is basically the same as the name brand good, but is a cheaper alternative.

Diff: 2 Page Ref: 41

Objective: What are the principles of supply and demand and the factors that affect each principle?

56) A(n) _____ is a market structure that occurs when there is only one provider of a service or product, and no substitutes for the product exist.

- A) monopoly
- B) oligopoly
- C) communism
- D) socialism

Answer: A

Diff: 1 Page Ref: 42

Objective: What are the four degrees of competition, and how does competition affect supply?

57) The Federal Trade Commission reviews mergers between large competitors to determine whether the combined firm would

- A) offer competitive rates for services.
- B) result in a monopolistic situation.
- C) require financial assistance.
- D) benefit both producers and consumers.

Answer: B

Diff: 1 Page Ref: 42

Objective: What are the four degrees of competition, and how does competition affect supply?

- 58) The government often allows _____ companies to operate as regulated monopolies.
- A) appliance
 - B) utility
 - C) insurance
 - D) automobile

Answer: B

Explanation: B) Utility companies are often permitted to operate as regulated monopolies because they deal with limited supplies of resources like water. However, although they are allowed to run as monopolies, the government will regulate their prices to ensure that they do not inflate the price to exorbitant amounts.

Diff: 2 Page Ref: 42

Objective: What are the four degrees of competition, and how does competition affect supply?

- 59) Why are natural monopolies permitted in the United States?
- A) to conserve natural resources
 - B) to provide better service
 - C) to generate more taxes
 - D) to give high-quality products

Answer: A

Diff: 1 Page Ref: 42

Objective: What are the four degrees of competition, and how does competition affect supply?

- 60) The government often permits natural monopolies, but it also
- A) imposes higher taxes.
 - B) imposes lower taxes.
 - C) regulates prices.
 - D) asks for annual reports.

Answer: C

Diff: 1 Page Ref: 42

Objective: What are the four degrees of competition, and how does competition affect supply?

- 61) What is the MOST likely scenario in a monopoly, where only one seller supplies a product or service?
- A) Demand may be lower.
 - B) Demand may vary.
 - C) Supply may be abundant.
 - D) Supply may be limited.

Answer: D

Diff: 2 Page Ref: 42

Objective: What are the four degrees of competition, and how does competition affect supply?

- 62) Rainfall Waters provides water to consumers. Will the government allow the company to operate as a monopoly?
- A) It is likely because the government permits a natural monopoly in an effort to conserve natural resources.
 - B) It is likely because the company pays its taxes to the government annually.
 - C) It is not likely because Rainfall Waters is not the only water company that provides water to consumers.
 - D) It is not likely because the government does not allow any type of monopoly on any good or service.

Answer: A

Explanation: A) Rainfall Waters is an example of a utility company. This type of company is permitted by the government to hold monopoly.

Diff: 3 Page Ref: 42

Objective: What are the four degrees of competition, and how does competition affect supply?

- 63) Recently, a new kind of computer processing chip entered the market. Only a few companies are selling the chip. What type of competition currently describes this situation?
- A) Communism
 - B) Monopoly
 - C) Oligopoly
 - D) Socialism

Answer: C

Explanation: C) It would be considered an oligopoly because there are only a few sellers.

Diff: 3 Page Ref: 42

Objective: What are the four degrees of competition, and how does competition affect supply?

- 64) _____ determines the level of competition in a given market.
- A) The amount of substitutes for a certain product or service
 - B) The amount of value attached to the cost of labor
 - C) The degree of government intervention in the market
 - D) The level of consumption for a given product

Answer: A

Diff: 1 Page Ref: 42

Objective: What are the four degrees of competition, and how does competition affect supply?

- 65) Miguel is saving his money to buy a bicycle. There is only one bike shop in town, and shipping costs make it impractical to order one on the Internet, so Miguel only has one viable option. What type of market structure does this situation most closely resemble?
- A) Monopoly
 - B) Monopolistic competition
 - C) Oligopoly
 - D) Perfect competition

Answer: A

Explanation: A) A monopoly occurs when there is only one provider of a service or product, and no substitutes for the product exist. Since there is only one bike shop in the town, and ordering online is not practical, the bike shop is the only viable service provider.

Diff: 3 Page Ref: 42

Objective: What are the four degrees of competition, and how does competition affect supply?

66) Oligopolies occur when there is/are

- A) only one seller.
- B) only a few sellers.
- C) many sellers.
- D) no sellers.

Answer: B

Diff: 1 Page Ref: 43

Objective: What are the four degrees of competition, and how does competition affect supply?

67) If there are few sellers in a given market, it is MOST likely that

- A) each seller has a fairly large share of the market.
- B) each seller has to double its marketing strategy.
- C) each seller has to come up with innovations.
- D) each seller has to look for possible mergers.

Answer: A

Explanation: A) In oligopolies, only a few sellers exist, and each seller has a fairly large share of the market. Therefore, it is most likely that each seller will gain more profit.

Diff: 2 Page Ref: 43

Objective: What are the four degrees of competition, and how does competition affect supply?

68) Oligopolies most likely exist in all of the following industries EXCEPT

- A) airline companies.
- B) utility companies.
- C) automobile companies.
- D) tobacco companies.

Answer: B

Explanation: B) Utility companies are most likely examples of companies establishing natural monopolies.

Diff: 2 Page Ref: 43

Objective: What are the four degrees of competition, and how does competition affect supply?

69) Competition is strong in _____ because there is little differentiation between products.

- A) a monopoly
- B) an oligopoly
- C) monopolistic competition
- D) perfect competition

Answer: B

Explanation: B) Because there is little differentiation between products, competition is strong in an oligopoly, and prices differ only slightly, if at all, between the few suppliers.

Diff: 2 Page Ref: 43

Objective: What are the four degrees of competition, and how does competition affect supply?

70) When competition is strong in an oligopoly,

- A) prices differ slightly.
- B) consumers buy a lot.
- C) prices go up fast.
- D) consumers complain.

Answer: A

Explanation: A) Prices differ slightly in an oligopoly because if one company cuts prices, its action is usually matched quickly by the competition. Competition in an oligopoly is centered on product differentiation more than on price.

Diff: 2 Page Ref: 43

Objective: What are the four degrees of competition, and how does competition affect supply?

71) What is competition in an oligopoly is specifically centered on?

- A) Consumers' needs
- B) Marketing strategies
- C) Product differentiation
- D) Quality assurance

Answer: C

Diff: 1 Page Ref: 43

Objective: What are the four degrees of competition, and how does competition affect supply?

72) How can companies show product differentiation?

- A) By supplying different products in the market
- B) By increasing prices for products that are in demand
- C) By making one product stand out from another
- D) By lowering prices for products that are not in demand

Answer: C

Diff: 1 Page Ref: 43

Objective: What are the four degrees of competition, and how does competition affect supply?

73) Monopolistic competition occurs during all of the following EXCEPT

- A) when there are many buyers and sellers.
- B) when there are many buyers but no sellers.
- C) when there is perceived difference of products among consumers.
- D) when there is little differentiation between the products themselves.

Answer: B

Explanation: B) In a monopolistic competition there are many buyers as well as sellers.

Diff: 2 Page Ref: 43

Objective: What are the four degrees of competition, and how does competition affect supply?

74) The difference between monopolistic competition and an oligopoly is

- A) the added choice of a perceived superior product.
- B) little differentiation between products.
- C) demonstration of an imperfect competition.
- D) the nature of government sanctions.

Answer: A

Explanation: A) In both monopolistic competition and oligopoly, there is little differentiation between products. The added choice of a perceived superior product by the consumers makes monopolistic competition different from oligopoly.

Diff: 2 Page Ref: 43

Objective: What are the four degrees of competition, and how does competition affect supply?

75) In monopolistic competition, products sold by different sellers are distinct from one another because of

- A) price differences.
- B) availability in the market.
- C) target demographic differences.
- D) world market demand.

Answer: A

Explanation: A) Companies in monopolistic competitions have the same products for different prices. However, one company is preferred over others for one reason or another, and so this brand is almost like a monopoly, despite the competitors.

Diff: 2 Page Ref: 44

Objective: What are the four degrees of competition, and how does competition affect supply?

76) In monopolistic competition, why do consumers favor one product offering over another?

- A) Because of perceived difference among consumers
- B) Because of the difference in prices
- C) Because of the obvious difference in design and style
- D) Because of the quality of the goods and service

Answer: A

Diff: 1 Page Ref: 43

Objective: What are the four degrees of competition, and how does competition affect supply?

77) For a long time, there was only one textbook supplier that students were authorized to use to purchase their books. Recently, the administration approved two other suppliers, giving the students more options for purchasing required textbooks. What type of competition is now present?

- A) Monopoly
- B) Market competition
- C) Oligopoly
- D) Perfect competition

Answer: C

Explanation: C) The new option for buying textbooks creates an oligopoly economy. The added suppliers create new competition for the old supplier, and competition between these companies should benefit the students.

Diff: 3 Page Ref: 43

Objective: What are the four degrees of competition, and how does competition affect supply?

78) Aside from the two coffee shops in Tory's neighborhood, a new branch of Dunkin Donuts is set to open next month. Tory thinks Dunkin Donuts' coffee is better than the other two options. What type of market structure is this?

- A) Monopoly
- B) Oligopoly
- C) Perfect competition
- D) Monopolistic competition

Answer: D

Explanation: D) The added choice of a perceived superior product creates monopolistic competition.

Diff: 3 Page Ref: 43

Objective: What are the four degrees of competition, and how does competition affect supply?

- 79) What are the characteristics of a perfect competition?
- A) Consumers can choose between different sellers and products.
 - B) Sellers do not have to compete with anyone because their goods and services are unique from everyone else's.
 - C) All goods and services are made with the highest quality by two different sellers and sold at two different prices.
 - D) There are many buyers and sellers of products that are virtually identical, and any seller can easily enter and exit the market.

Answer: D

Diff: 1 Page Ref: 44

Objective: What are the four degrees of competition, and how does competition affect supply?

- 80) Supply _____ in monopolistic and perfect competitions.
- A) decreases
 - B) stays the same
 - C) increases
 - D) goes up and down

Answer: C

Explanation: C) In monopolistic and perfect competitions, there are many different companies with the same product. This means that supply of that product or service increases.

Diff: 2 Page Ref: 44

Objective: What are the four degrees of competition, and how does competition affect supply?

- 81) During the summer, kids in Thea's neighborhood set up stands to sell lemonade. All of the lemonade looks the same, and the prices are the same. What type of market structure is this?
- A) Monopoly
 - B) Monopolistic competition
 - C) Oligopoly
 - D) Perfect competition

Answer: D

Explanation: D) In perfect competition, there are many sellers, and no single seller can set the price for the products. In monopolies, there is only one company selling something, and in oligopolies, there are a few companies, but they set competitive prices against one another.

Diff: 2 Page Ref: 44

Objective: What are the four degrees of competition, and how does competition affect supply?

- 82) The gross domestic product measures
- A) the overall market value of final goods and services produced in a country in a year.
 - B) the overall gross profit a country is able to earn in a given year.
 - C) the overall debt a country is able to pay in a given year.
 - D) the overall amount a country is able to spend in any given year.

Answer: A

Diff: 1 Page Ref: 45

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

83) Only goods that are produced in the United States are counted in the United States'

_____.

- A) production index
- B) gross national product
- C) gross domestic product
- D) goods and services index

Answer: C

Diff: 1 Page Ref: 46

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

84) ArmiLiza, a popular United States-based brand of handbags, has built a second factory in Mexico. The majority of the new factory's employees are Mexican citizens or Honduran immigrants. On which country's gross domestic product will the second factory's goods be counted?

- A) the United States
- B) Mexico
- C) Honduras
- D) All of the above

Answer: B

Explanation: B) Only the goods that are actually produced in the country are included in the country's GDP.

Diff: 2 Page Ref: 46

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

85) The _____ is the most widely used indicator of economic growth in the world today.

- A) gross domestic product
- B) gross national product
- C) consumer price index
- D) producer price index

Answer: A

Diff: 1 Page Ref: 46

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

86) A rise in the general level of prices over time is called

- A) inflation.
- B) deflation.
- C) disinflation.
- D) floatation.

Answer: A

Diff: 1 Page Ref: 46

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

87) _____ is a decrease in the rate of inflation.

- A) Deflation
- B) Disinflation
- C) De-inflation
- D) Deflection

Answer: B

Diff: 1 Page Ref: 46

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

88) What do monthly consumer price indexes track?

- A) The changes in prices of goods and services made available by the state
- B) The changes in prices of goods and services purchased by households
- C) The amount of products and services produced by companies
- D) The number of new products that consumers can purchase in a month

Answer: B

Diff: 1 Page Ref: 46

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

89) The market basket's value is determined by

- A) the combined prices of goods and services compared to its value in a prior period.
- B) the amount of profit businesses made for selling certain goods and services.
- C) the price of goods and services compared to the amount used to produce them.
- D) the profit small businesses earn minus the taxes they have to pay.

Answer: A

Diff: 1 Page Ref: 46

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

90) Why should the U.S. Bureau of Labor Statistics evaluate the basket of goods and services?

- A) To make sure that small businesses are taken care of
- B) To ensure that it reflects consumers' buying habits
- C) To make sure that they are always aware of trends
- D) To ensure that it fits consumer needs

Answer: B

Explanation: B) The Bureau of Labor Statistics evaluates the market basket as a way to track spending habits of many different families and thus get a better idea of what people are spending money on. This helps determine how the economy is doing, and how inflation rates are affecting spending habits in specific areas of the economy.

Diff: 2 Page Ref: 46

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

91) The average total of goods and services required to maintain a particular standard of living is called

- A) human needs.
- B) expenditure items.
- C) basic necessities.
- D) cost of living.

Answer: D

Diff: 1 Page Ref: 47

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

92) The producer price index tracks the change in prices from the _____ perspective.

- A) government's
- B) buyer's
- C) seller's
- D) manager's

Answer: C

Diff: 1 Page Ref: 47

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

93) The producer price index excludes which of the following?

- A) Product components that still need to be processed
- B) Raw materials
- C) Finished goods sold to retailers
- D) Energy and services

Answer: D

Diff: 1 Page Ref: 47

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

94) What is the name of the rate that measures the number of workers who are at least 16 years old and older, who have been unable to find a job within the past four weeks?

- A) Work force rate
- B) Employment fluctuation rate
- C) Unemployment rate
- D) Seasonal job rate

Answer: C

Diff: 1 Page Ref: 48

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

95) Frictional unemployment

- A) measures temporary unemployment in which workers move between jobs, careers, and locations.
- B) occurs when the person is unemployed because he or she was in conflict with a manager or boss.
- C) measures those out of work during the off-season.
- D) occurs when there is a lack of demand for those who want to work.

Answer: A

Diff: 1 Page Ref: 48

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

96) What kind of unemployment measures permanent unemployment associated with an industry that changes in such a way that jobs are terminated completely?

- A) Frictional unemployment
- B) Structural unemployment
- C) Cyclical unemployment
- D) Seasonal unemployment

Answer: B

Explanation: B) Structural unemployment is unemployment that is a result of a job no longer being available. For instance, a person who was replaced by a computer would be facing structural unemployment.

Diff: 2 Page Ref: 48

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

97) What can workers do in order to find new jobs when they lose their jobs due to changes in the industry?

- A) Sue their former companies
- B) Protest to the government
- C) Learn new skills or receive additional training
- D) File for bankruptcy

Answer: C

Diff: 1 Page Ref: 48

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

98) The lack of demand for those who want to work is measured by

- A) frictional unemployment.
- B) structural unemployment.
- C) cyclical unemployment.
- D) seasonal unemployment.

Answer: C

Diff: 1 Page Ref: 48

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

99) How is cyclical unemployment related to the economy?

- A) They are inversely proportional.
- B) They are directly proportional.
- C) They are not related.
- D) They are slightly influenced by each other.

Answer: A

Explanation: A) The rate of cyclical unemployment becomes smaller as the economy grows stronger.

Diff: 2 Page Ref: 48

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

100) People who are affected by seasonal unemployment work in all of the following industries EXCEPT

- A) snow-related industries.
- B) beach-related industries.
- C) the legal profession.
- D) agriculture.

Answer: C

Explanation: C) Seasonal unemployment means that there is no work during a specific time of the year. Legal professionals do not have specific seasons that they work, they work all year round.

Diff: 2 Page Ref: 48

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

101) A high unemployment rate results in an increase in all of the following EXCEPT

- A) mental stress.
- B) physical illness.
- C) job availability.
- D) crime rate.

Answer: C

Diff: 1 Page Ref: 48

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

102) The Temporary Assistance for Needy Families program receives more funding when

- A) unemployment rates are low.
- B) unemployment rates are high.
- C) people retire from the workforce.
- D) people enter the workforce.

Answer: B

Diff: 1 Page Ref: 48

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

103) In a strong economy, the unemployment rate may drop too low, causing all of the following to happen EXCEPT

- A) nationwide layoffs.
- B) an increase in prices.
- C) higher inflation rates.
- D) more buying power.

Answer: A

Explanation: A) If the economy is strong, that means that companies are doing well enough to support the staff they have. They are not likely to fire anyone until the economy weakens.

Diff: 2 Page Ref: 49

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

104) Rick is able to write an average of 10 pages of a manuscript in a day. What does this situation measure?

- A) Rick's productivity
- B) Rick's profit
- C) Rick's time at work
- D) Rick's intelligence quota

Answer: A

Explanation: A) Productivity is how much work can get done in a specific amount of time.

Diff: 2 Page Ref: 49

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

105) _____ indicates an increase in productivity.

- A) Producing more cars today than yesterday
- B) Having many responsibilities
- C) Taking a shorter lunch break
- D) Worker satisfaction

Answer: A

Explanation: A) Productivity is how much of a product someone can create in a specific amount of time. So, if more cars are produced in the same amount of time, the company's productivity has increased.

Diff: 2 Page Ref: 49

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

106) Producing more goods or services in the same amount of time means

- A) a decrease in productivity.
- B) an increase in productivity.
- C) no change in productivity.
- D) dissatisfaction in productivity.

Answer: B

Diff: 1 Page Ref: 49

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

- 107) Aside from increasing wages, companies can also re-invest economic benefits by
- A) maintaining working conditions.
 - B) decreasing shareholder value.
 - C) increasing tax revenue to the government.
 - D) increasing prices for customers.

Answer: C

Diff: 2 Page Ref: 49

Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

- 108) The term "business cycle" refers to
- A) the increase and decrease of economic growth.
 - B) the periodic purchase of businesses by the government.
 - C) the increase and decrease of inflation rate.
 - D) the periodic growth of the Federal Reserve System.

Answer: A

Diff: 3 Page Ref: 50

Objective: What are the four stages of the business cycle?

- 109) During which stage of the business cycle does extreme deflation occur?
- A) Expansion
 - B) Boom or peak
 - C) Recession
 - D) Depression

Answer: D

Explanation: D) Deflation is the steady falling of prices over a period of time. During a depression, deflation steadily gets worse until the recovery stage of the business cycle.

Diff: 2 Page Ref: 50

Objective: What are the four stages of the business cycle?

- 110) Large selling sessions in the stock market are the principal cause of
- A) an increase in stock prices.
 - B) a decrease in stock prices.
 - C) a leveling of major stock prices.
 - D) the collapse of the stock market.

Answer: B

Diff: 1 Page Ref: 50

Objective: What are the four stages of the business cycle?

- 111) For the first few months of business, CozyCups Tea Inc. was losing money, although they were able to stay in business. Then, after a news article feature, business started picking up, and the company was eventually able to expand. In a business cycle, economic expansion typically occurs after a
- A) trough.
 - B) deflation.
 - C) boom or peak.
 - D) change of government.

Answer: A

Explanation: A) In the business cycle, expansion comes after a trough. For CozyCups, the expansion came after their poor sales leveled off into a trough.

Diff: 2 Page Ref: 51

Objective: What are the four stages of the business cycle?

- 112) Tax regulation is a form of

- A) fiscal policy.
- B) monetary policy.
- C) expansion policy.
- D) inflation policy.

Answer: A

Diff: 1 Page Ref: 51

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

- 113) The main function of the Federal Open Market Committee is to

- A) oversee the open market operations of the Federal Reserve.
- B) set the policies of the Federal Reserve, including monetary policies.
- C) reconcile the monetary policies with the fiscal policies.
- D) transacts with banks outside the country holding U.S. dollars.

Answer: B

Diff: 1 Page Ref: 51

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

- 114) Government spends money on a wide variety of projects in order to increase _____ to the economy

- A) cash flow
- B) business taxes
- C) interest rates
- D) tax cuts

Answer: A

Explanation: A) The U.S. government spends money on projects that help defense, education, and medical care in order to stimulate the economy. All of these changed situations are a result of government spending.

Diff: 2 Page Ref: 51

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

115) The Federal Reserve System oversees which of the following tasks?

- A) Control of tax and spending levels
- B) Dictation of minimum wage and salary
- C) Assigning of the budget for health care
- D) Trade in foreign exchange markets

Answer: D

Diff: 1 Page Ref: 52

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

116) Which of the following refers to money managed by the Federal Reserve?

- A) Gross national product
- B) M-3
- C) Foreign exchange
- D) Money supply

Answer: D

Diff: 1 Page Ref: 52

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

117) Traveler's checks are classified as

- A) M-1.
- B) M-2.
- C) M-3.
- D) M-4.

Answer: A

Diff: 1 Page Ref: 52

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

118) Eurodollars are

- A) money market accounts held by multinational corporations.
- B) United States dollars converted to Western European currency.
- C) U.S. dollars deposited in banks outside the United States.
- D) U.S. certificates of deposit stored in Swiss bank accounts.

Answer: C

Diff: 1 Page Ref: 52

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

119) Which of the following is classified as an M-3 asset?

- A) Coins and bills in circulation
- B) Money market accounts
- C) Certificates of deposit less than \$100,000
- D) Certificates of deposit greater than \$100,000

Answer: D

Diff: 1 Page Ref: 52

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

120) The M-1 and M-2 assets plus _____ comprise M-3 assets.

- A) the Federal Funds Rate
- B) the discount rate
- C) less liquid funds over \$100K
- D) government funds

Answer: C

Diff: 1 Page Ref: 52

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

121) All of the following can decrease the money supply EXCEPT

- A) decreased spending.
- B) reduced inflation.
- C) falling prices.
- D) increased demand.

Answer: D

Explanation: D) An increase in the supply of goods increases what is available to buy, but does not actually put more money into circulation. New labor will give people jobs and therefore wages; an increase in spending and prices means that consumers are spending more money, which all puts money back into the money supply.

Diff: 2 Page Ref: 53

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

122) Reduced inflation is also known as

- A) deflation.
- B) disinflation.
- C) bubble economy.
- D) tax cut.

Answer: B

Diff: 1 Page Ref: 53

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

123) Which of the following is a tool used by the Federal Reserve to affect money supply?

- A) Consumer price index
- B) Reserve requirement
- C) Income tax rate
- D) Federal budget

Answer: B

Diff: 1 Page Ref: 53

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

124) Buying securities allows the Federal Reserve to help

- A) reduce inflation.
- B) increase inflation.
- C) offset deflation.
- D) induce deflation.

Answer: C

Diff: 1 Page Ref: 53

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

125) Which of these Federal Reserve actions may act as a warning to potential home buyers that interest rates may be increasing?

- A) The Federal Reserve sells securities.
- B) The Federal Reserve buys securities.
- C) The Federal Funds rate decreases.
- D) The discount rate decreases.

Answer: A

Explanation: A) When the Fed sells government securities, it decreases the amount of reserves in the system, causing interest rates to rise.

Diff: 2 Page Ref: 53

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

126) All of the following statements about open market operations are true EXCEPT

- A) it is used by the Federal Reserve to change the Federal Funds Rate.
- B) it is used by the Federal Reserve to change the discount rate.
- C) it is used by the Federal Reserve to buy and sell federal agency bonds.
- D) it is used by the Federal Reserve to transact with security dealers.

Answer: B

Diff: 1 Page Ref: 53

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

127) When does money become "easy"?

- A) When the Federal Funds rate increases
- B) When the Federal Funds rate decreases
- C) When the reserve requirement increases
- D) When the money supply decreases

Answer: B

Explanation: B) When there is an increase in the Federal Funds rate, it means that the government is regulating money to keep the system balanced. Money is only "easy" when interest rates are down and the government is buying securities,

Diff: 2 Page Ref: 53

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

128) What is the result when the Federal Reserve buys or sells U.S. securities?

- A) Reserves are added to the system.
- B) Money is said to be "easy."
- C) Interest rates drop.
- D) All of the above

Answer: D

Diff: 1 Page Ref: 53

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

129) When there is an economic condition in which there is an overall increase of prices, it is called

- A) inflation.
- B) deflation.
- C) disinflation.
- D) depression.

Answer: A

Explanation: A) Inflation occurs when the demand for a product is high and greater than the supply of a good or service. When this happens, the price increases, which causes inflation.

Diff: 2 Page Ref: 53

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

130) An increase in the demands for loans stimulates the economy because there is an increase in

- A) selling of securities.
- B) the reserve requirement.
- C) government spending.
- D) the supply of money.

Answer: D

Diff: 1 Page Ref: 53

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

131) In which part of the business cycle will the Federal Reserve MOST likely increase the discount rate to discourage banks from borrowing?

- A) Peak
- B) Depression
- C) Recession
- D) Expansion

Answer: A

Diff: 1 Page Ref: 54

Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

- 132) The reserve requirement is defined as
- A) the maximum amount of money banks can borrow from the Federal Reserve.
 - B) the maximum amount of money banks can borrow from one another.
 - C) the minimum amount of money banks hold in reserve to cover deposits.
 - D) the minimum amount of money that can be deposited by banks in the Federal Reserve.
- Answer: C
Diff: 1 Page Ref: 54
Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?
- 133) The Federal Funds rate is the interest rate that
- A) results after the government spends more money in infrastructure projects.
 - B) sets the amount of money banks must hold in reserve to cover deposits.
 - C) the Fed charges commercial banks when they borrow from them.
 - D) banks charge other banks when they borrow funds overnight from one another.
- Answer: D
Diff: 1 Page Ref: 54
Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?
- 134) Banks make money through the _____ charged on loans made to small businesses, corporations, and other banks.
- A) discount rate
 - B) interest
 - C) Federal Funds rate
 - D) withdrawals
- Answer: B
Diff: 1 Page Ref: 55
Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?
- 135) Which will MOST likely result when people know that the banks will not be able to cover their deposits?
- A) People will urge government to spend more on infrastructure projects.
 - B) People will petition the Federal Reserve Bank to close down the banks.
 - C) People will withdraw huge amounts of their money, causing banks to close down.
 - D) People will take out loans from other banks to offset the shortage.
- Answer: C
Explanation: C) One of the reasons banks failed during the Great Depression was because they did not have the money to back up the loans they were making. When people learned that the banks would not be able to cover their deposits, they panicked, trying to withdraw all of their money from the banks.
- Diff: 3 Page Ref: 55
Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

- 136) The price or value of the product is determined solely by the quantity and accessibility of the resources used to manufacture the product.
Answer: FALSE
Explanation: Many factors are figured into the price and value of a product or service. Demand is important, but so are supply, price, and consumer needs.
Diff: 2 Page Ref: 31
Objective: What is economics, and what are the different types of economic systems?
- 137) The study of economics looks at how finite or scarce resources can be made to supply an infinite demand.
Answer: TRUE
Diff: 1 Page Ref: 31
Objective: What is economics, and what are the different types of economic systems?
- 138) National and local unemployment rates are an immediate concern of microeconomists.
Answer: FALSE
Diff: 1 Page Ref: 32
Objective: What is economics, and what are the different types of economic systems?
- 139) An example of macroeconomics in practice is the inflation of the dollar impacting cash loan interest rates.
Answer: TRUE
Explanation: The inflation of the dollar influences the whole economy.
Diff: 2 Page Ref: 32
Objective: What is economics, and what are the different types of economic systems?
- 140) In a mixed economy, the government still has the final say on all economic activities.
Answer: FALSE
Diff: 1 Page Ref: 32
Objective: What is economics, and what are the different types of economic systems?
- 141) In a mixed economy, individual income determines purchasing decisions for all goods and services.
Answer: FALSE
Diff: 1 Page Ref: 32
Objective: What is economics, and what are the different types of economic systems?
- 142) Traditional economies exist even at present in countries such as India and the United Kingdom.
Answer: FALSE
Diff: 1 Page Ref: 32
Objective: What is economics, and what are the different types of economic systems?
- 143) Both the buyer and the seller have freedom of choice in a market economy.
Answer: TRUE
Diff: 1 Page Ref: 33
Objective: What is economics, and what are the different types of economic systems?

- 144) Countries that adopt a socialist economy fulfill their citizen's basic needs by delivering all social services and imposing a very low marginal income tax rate.
Answer: FALSE
Explanation: In socialist economic systems, the high tax rates people pay are balanced out by the multitude of social services that the government delivers.
Diff: 2 Page Ref: 33
Objective: What is economics, and what are the different types of economic systems?
- 145) The United States is a free market economy.
Answer: FALSE
Diff: 1 Page Ref: 33
Objective: What is economics, and what are the different types of economic systems?
- 146) In true socialism, although resources are abundant, there is no effective means of fair and equal distribution.
Answer: FALSE
Explanation: In a socialist economy, everyone is supposed to be given an equal share of the wealth. However, there is little incentive for the workers to work hard, because they regardless of how much or how little they do, they get the same number of benefits.
Diff: 2 Page Ref: 33
Objective: What is economics, and what are the different types of economic systems?
- 147) North Korea and Cuba, both communist states, are failing economically because of shortages of goods and services.
Answer: TRUE
Diff: 1 Page Ref: 33
Objective: What is economics, and what are the different types of economic systems?
- 148) Privatization is the conversion of government-owned production and services to privately owned, profit-seeking enterprises.
Answer: TRUE
Diff: 1 Page Ref: 33
Objective: What is economics, and what are the different types of economic systems?
- 149) The local unemployment rate has a significant impact on an individual who owns a chain of convenience stores.
Answer: TRUE
Explanation: The owner of a chain of convenience stores can view an increase in the local unemployment rate as a chance to hire new staff and open up a new store.
Diff: 2 Page Ref: 34
Objective: What is economics, and what are the different types of economic systems?
- 150) China's economy is solely controlled by business moguls with a monopoly of the major industries of the country.
Answer: FALSE
Diff: 1 Page Ref: 34
Objective: What is economics, and what are the different types of economic systems?

- 151) Bartering is an ineffective and inconsistent form of acquiring goods or services.
Answer: TRUE
Diff: 1 Page Ref: 35
Objective: What are the principles of supply and demand and the factors that affect each principle?
- 152) Currency was developed to take the place of bartering.
Answer: TRUE
Diff: 1 Page Ref: 35
Objective: What are the principles of supply and demand and the factors that affect each principle?
- 153) The value of a product or service is primarily determined by the current exchange rate.
Answer: FALSE
Explanation: The value of a product or service is determined by the consumer's need and the supply of that product or service.
Diff: 2 Page Ref: 35
Objective: What are the principles of supply and demand and the factors that affect each principle?
- 154) The availability of goods at any given time is called supply.
Answer: TRUE
Diff: 1 Page Ref: 36
Objective: What are the principles of supply and demand and the factors that affect each principle?
- 155) Demand is dependent on resources required to produce the product or offer the service.
Answer: FALSE
Diff: 1 Page Ref: 36
Objective: What are the principles of supply and demand and the factors that affect each principle?
- 156) Demand is caused by people's persistence to buy as much as they need without a thought to their individual resources.
Answer: FALSE
Explanation: Demand is based on how much an individual needs a product, as well as how much of that product is available.
Diff: 2 Page Ref: 36
Objective: What are the principles of supply and demand and the factors that affect each principle?
- 157) Improvements in technology help suppliers produce their goods or services more efficiently and with fewer costs.
Answer: TRUE
Diff: 1 Page Ref: 38
Objective: What are the principles of supply and demand and the factors that affect each principle?
- 158) The costs of goods and services are significantly lower when there are many suppliers.
Answer: TRUE
Diff: 1 Page Ref: 39
Objective: What are the principles of supply and demand and the factors that affect each principle?
- 159) A negative change in any of the determinants of demands shifts the demand curve to the left.
Answer: TRUE
Diff: 1 Page Ref: 39
Objective: What are the principles of supply and demand and the factors that affect each principle?

- 160) With an improved economy, more people have jobs and have resources.
Answer: TRUE
Diff: 1 Page Ref: 40
Objective: What are the principles of supply and demand and the factors that affect each principle?
- 161) Dunkin' Donuts and Starbucks are examples of complementary goods.
Answer: FALSE
Explanation: Complementary goods are goods that go with each other and are consumed together. Although they could technically be bought separately and consumed together, most people would likely buy both food and drink at one store or the other.
Diff: 2 Page Ref: 40
Objective: What are the principles of supply and demand and the factors that affect each principle?
- 162) Dropping income levels force people to be more wary of price costs, so they purchase fewer products, which shifts the demand curve to the left.
Answer: TRUE
Diff: 1 Page Ref: 40
Objective: What are the principles of supply and demand and the factors that affect each principle?
- 163) If an item is popular, its complementary good becomes popular as well.
Answer: TRUE
Diff: 1 Page Ref: 40
Objective: What are the principles of supply and demand and the factors that affect each principle?
- 164) iTunes in place of iPods are examples of substitute goods.
Answer: FALSE
Diff: 1 Page Ref: 41
Objective: What are the principles of supply and demand and the factors that affect each principle?
- 165) The four degrees of competition are monopoly, oligopoly, imperfect competition, and perfect competition.
Answer: FALSE
Diff: 1 Page Ref: 42
Objective: What are the four degrees of competition, and how does competition affect supply?
- 166) If there is only one provider of a service or product and no substitutes for the product exist, it is called a monopoly.
Answer: TRUE
Diff: 1 Page Ref: 42
Objective: What are the four degrees of competition, and how does competition affect supply?
- 167) The cost of labor determines the level of competition.
Answer: FALSE
Explanation: The level of competition is based on the number of substitutes available for a product or service.
Diff: 2 Page Ref: 42
Objective: What are the four degrees of competition, and how does competition affect supply?

- 168) JC Penny's used to be the only department store in town until the mall housing the store added a Macy's. Since customers have a choice between two sellers, this situation can be considered as an oligopoly.
Answer: TRUE
Diff: 1 Page Ref: 43
Objective: What are the four degrees of competition, and how does competition affect supply?
- 169) An oligopoly is a form of competition in which a seller has to give up his business for a more profitable competitor.
Answer: FALSE
Diff: 1 Page Ref: 43
Objective: What are the four degrees of competition, and how does competition affect supply?
- 170) In an oligopoly, each seller has a fairly large share of the market.
Answer: TRUE
Explanation: In an oligopoly, there are few competitors. Competition is tough, but prices are generally about the same, and products are also very similar to one another.
Diff: 2 Page Ref: 43
Objective: What are the four degrees of competition, and how does competition affect supply?
- 171) Competition in an oligopoly is centered more on the price rather than on product differentiation.
Answer: FALSE
Diff: 1 Page Ref: 43
Objective: What are the four degrees of competition, and how does competition affect supply?
- 172) Oligopolies are often major corporations in certain areas such as the airline, automobile, and tobacco industries.
Answer: TRUE
Diff: 1 Page Ref: 43
Objective: What are the four degrees of competition, and how does competition affect supply?
- 173) The added choice of a perceived superior product creates perfect competition.
Answer: FALSE
Diff: 1 Page Ref: 43
Objective: What are the four degrees of competition, and how does competition affect supply?
- 174) In reality, there are very few, if any, examples of monopolistic competition.
Answer: FALSE
Explanation: Monopolistic competition is very common. Large chain stores like Barnes & Nobles or Dunkin Donuts are often like a monopoly in their communities because they are seen as having superior products to other, similar stores.
Diff: 2 Page Ref: 43
Objective: What are the four degrees of competition, and how does competition affect supply?
- 175) Monopolistic competition occurs when there are many buyers and sellers of virtually the same product but there is a perceived difference among consumers, who favor one product offering over another.
Answer: TRUE
Diff: 1 Page Ref: 43
Objective: What are the four degrees of competition, and how does competition affect supply?

- 176) Supplies may increase with an oligopoly.
Answer: TRUE
Diff: 1 Page Ref: 43
Objective: What are the four degrees of competition, and how does competition affect supply?
- 177) Perfect competition occurs when there are many buyers and sellers of different products in one market.
Answer: FALSE
Explanation: Perfect competition occurs when there are many buyers and sellers of products that are virtually identical and any seller can easily enter and exit the market.
Diff: 2 Page Ref: 44
Objective: What are the four degrees of competition, and how does competition affect supply?
- 178) In a perfect competition, a supplier can easily influence the price.
Answer: FALSE
Diff: 1 Page Ref: 44
Objective: What are the four degrees of competition, and how does competition affect supply?
- 179) The U.S. government ensures that no single seller drastically influences the price of a certain service or product by watching monopolies closely.
Answer: TRUE
Explanation: The U.S. government allows utility companies to have monopolies because the supply of the product they sell is limited. However, the monopolies are regulated by the government so that prices do not get out of control.
Diff: 2 Page Ref: 44
Objective: What are the four degrees of competition, and how does competition affect supply?
- 180) The health of a country's economy cannot be measured by the gross domestic product.
Answer: FALSE
Diff: 1 Page Ref: 45
Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?
- 181) Only those goods that are actually produced in the country are counted in the country's gross domestic product.
Answer: TRUE
Diff: 1 Page Ref: 45
Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?
- 182) The gross national product attributes earnings to the country where the firm is owned, not where the product is manufactured.
Answer: TRUE
Diff: 1 Page Ref: 46
Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?
- 183) GNP means gross native product.
Answer: FALSE
Diff: 1 Page Ref: 46
Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

- 184) When the gross domestic product goes up, the indication is that the economy is in a negative state.
Answer: FALSE
Explanation: When the gross domestic product goes up, the indication is that the economy is in a positive state. This is because it means that the country has a large supply of goods and services, and that companies are doing well enough to employ people to make those products.
Diff: 2 Page Ref: 46
Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?
- 185) The two most popular price indexes used as economic indicators are the consumer price index and the producer price index.
Answer: TRUE
Diff: 1 Page Ref: 46
Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?
- 186) Inflation is a rise in the general level of prices over time.
Answer: TRUE
Diff: 1 Page Ref: 46
Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?
- 187) A decrease in the rate of inflation is called disinflation.
Answer: TRUE
Diff: 1 Page Ref: 46
Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?
- 188) The consumer price index is a benchmark used to track changes in prices over time.
Answer: TRUE
Diff: 1 Page Ref: 46
Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?
- 189) Food/beverages and housing are two of the eight major groups of expenditure items.
Answer: TRUE
Diff: 1 Page Ref: 47
Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?
- 190) The consumer price index measures changes in the price of goods used to create the goods, such as capital and resource expenditures.
Answer: FALSE
Explanation: The consumer price index measures changes in prices of consumer goods only.
Diff: 2 Page Ref: 47
Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?

- 191) When the purchasing power of the dollar decreases, this means that less is bought with a dollar today than could have been purchased with the dollar yesterday.
Answer: TRUE
Explanation: As prices increase, this means that consumers must pay more for the same items. This means that the dollar amount has decreased, because the new price requires that people pay more for the same item.
Diff: 2 Page Ref: 47
Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?
- 192) The producer price index tracks the average change in prices at the wholesale level.
Answer: TRUE
Diff: 1 Page Ref: 47
Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?
- 193) Frictional unemployment measures temporary unemployment in which workers do not have jobs for part of the year because their jobs are related to seasonal work.
Answer: FALSE
Explanation: Frictional unemployment is temporary or unexpected unemployment. Seasonal unemployment is unemployment during the off-season.
Diff: 2 Page Ref: 48
Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?
- 194) Increasing productivity means that the existing resources are producing more, which generates more income and more profitability.
Answer: TRUE
Diff: 1 Page Ref: 49
Objective: How do economic indicators—particularly the gross domestic product (GDP), price indexes, the unemployment rate, and productivity—reflect economic health?
- 195) A boom or peak occurs after a recession.
Answer: FALSE
Explanation: During a recession, there is a trough. When the economy moves out of this trough, this is called a recovery period. Only when recovery reaches as high as it will go before declining again is it called a boom or a peak.
Diff: 2 Page Ref: 50
Objective: What are the four stages of the business cycle?
- 196) A depression is usually associated with deflation.
Answer: TRUE
Diff: 1 Page Ref: 50
Objective: What are the four stages of the business cycle?
- 197) The business cycle is what economists call the time when corporate profits decline, unemployment increases, and the stock market reacts with large selling sessions.
Answer: FALSE
Diff: 1 Page Ref: 50
Objective: What are the four stages of the business cycle?

- 198) After a recession or even a depression, the economy goes to a peak or boom.
Answer: FALSE
Diff: 1 Page Ref: 51
Objective: What are the four stages of the business cycle?
- 199) The period that comes after a recession or even a depression is called the boom or peak.
Answer: FALSE
Diff: 1 Page Ref: 51
Objective: What are the four stages of the business cycle?
- 200) Eventually, recovery will reach its peak and the business cycle is kept at a standstill.
Answer: FALSE
Diff: 1 Page Ref: 51
Objective: What are the four stages of the business cycle?
- 201) When inflation rises, government may increase taxes so that consumers will spend less money and slow down business revenues, which in turn slow down the economy.
Answer: TRUE
Diff: 1 Page Ref: 51
Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?
- 202) The amount of money entering into a system is not only dependent on the reduction in taxes, but also on how much of the tax cut consumers spend and save.
Answer: TRUE
Diff: 1 Page Ref: 51
Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?
- 203) To fuel a lagging economy, the government reduces taxes so that consumers may spend more money, thus directly injecting money into the system.
Answer: FALSE
Explanation: Government spending increases cash flow to the economy faster than increasing taxes. A quicker way to increase the amount of money in the system is by the government creating jobs and programs as a way to get more money out to the citizens in its country.
Diff: 2 Page Ref: 51
Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?
- 204) When economic growth is at its peak, the government may decrease its spending, potentially affecting interest rates.
Answer: TRUE
Explanation: The government will increase its spending when the economy is lagging, not when the economy is doing well. Government spending is one way that the government works to boost the economy, and does not increase spending when the economy is doing well on its own.
Diff: 2 Page Ref: 51
Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?

- 205) To help fuel a lagging economy, the government may spend money on projects, such as giving out loans to countries outside the United States and spending more on humanitarian foreign aid.
Answer: FALSE
Explanation: The government will spend more money on projects within the United States in an effort to stimulate the economy, not foreign markets. The government wants to boost the U.S. economy, and so the spending will be focused on the U.S. citizens.
Diff: 2 Page Ref: 51
Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?
- 206) A tax cut immediately fuels a lagging economy because consumers automatically spend these tax cuts.
Answer: FALSE
Diff: 1 Page Ref: 51
Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?
- 207) The Federal Reserve system is the central banking system of the United States.
Answer: TRUE
Diff: 1 Page Ref: 51
Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?
- 208) The Federal Reserve manages the country's fiscal policies through changing certain interest rates, buying and selling of government securities, and trading in foreign exchange markets.
Answer: FALSE
Diff: 1 Page Ref: 52
Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?
- 209) Open market operations occur when the Federal Reserve buys and sells U.S. Treasury and federal agency bonds through a reliable security dealer.
Answer: FALSE
Diff: 1 Page Ref: 53
Objective: How does the government use both fiscal policy and monetary policy to control swings in the business cycle?