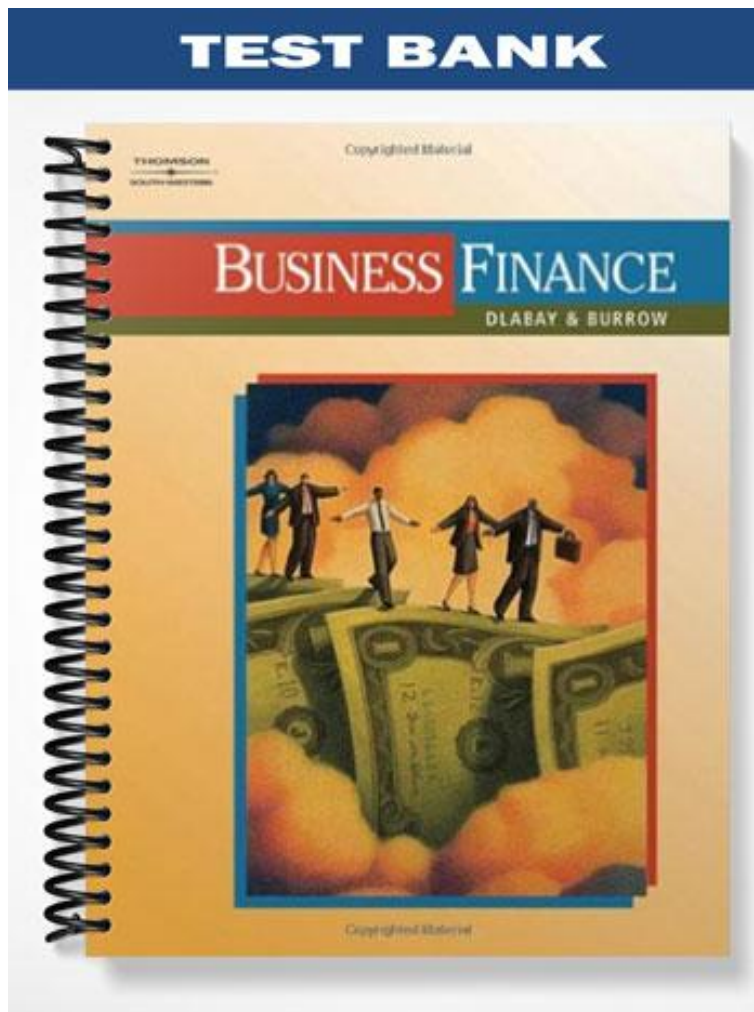


# TEST BANK



## Chapter 2: Financial Environment of Business

Student: \_\_\_\_\_

1. In economics, capital resources are sometimes referred to as *labor*.  
True False
2. The availability of resources limits the supply of products and services.  
True False
3. The United States is a good example of a pure market economy.  
True False
4. One major advantage of a partnership is that the partners are not personally liable for any of the business' debts.  
True False
5. Anyone with the money to pay for a share of stock can become an owner of a private corporation.  
True False
6. Investments with high financial risks also offer the opportunity for greater financial return.  
True False
7. A bond is a financial instrument that obligates the issuer to pay the bondholder the principal plus interest at the end of a designated period.  
True False
8. Businesses raise money needed for short-term operating expenses by selling treasury bills.  
True False
9. Over the past 20 years, U.S. business investments in other countries has sharply decreased.  
True False
10. The exchange rate for a country's currency is based on the supply and demand for that currency.  
True False

11. This term refers to the economic principle stating that people have wants and needs that are greater than can be satisfied with the available products and services.
- A. opportunity cost
  - B. choice
  - C. scarcity
  - D. time value of money
12. Which of the following is an example of a non-renewable resource?
- A. timber
  - B. water
  - C. oil
  - D. labor
13. Which of the following will most likely increase demand for a product?
- A. price of the product is low
  - B. businesses have trouble obtaining resources needed to produce the product
  - C. supply of the product is high
  - D. product does not meet many people's needs
14. Which of the following is NOT a guiding principle of the free enterprise economy?
- A. right of private ownership
  - B. limited government role
  - C. tight restrictions on how consumers spend their money
  - D. business competition
15. A limited liability company combines features of which two forms of business ownership?
- A. sole proprietorship and corporation
  - B. corporation and multinational conglomerate
  - C. partnership and sole proprietorship
  - D. partnership and corporation
16. The major financial disadvantage of a corporation is that
- A. each owner must participate in the day-to-day operations of the business.
  - B. the business must close or be sold when investors die.
  - C. profits can be taxed twice.
  - D. initial financing is usually more difficult to obtain.
17. By far, the most common form of business organization in the United States is the
- A. sole proprietorship.
  - B. partnership.
  - C. corporation.
  - D. limited liability company.

18. A business needs to purchase a large number of new computers. Which of the following is the MOST likely way the business will finance the payment for the computers?
- A. through a short-term loan
  - B. with a mortgage
  - C. by issuing additional stock
  - D. by issuing bonds
19. The organized exchange of the ownership shares of public corporations occurs at a
- A. money market.
  - B. stock market.
  - C. commodities market.
  - D. futures market.
20. Which of the following is used to raise new capital for an organization?
- A. primary offering
  - B. secondary offering
  - C. purchase of commercial paper
  - D. all of the above
21. The largest trading market in the world is the
- A. New York Stock Exchange.
  - B. NASDAQ.
  - C. commodities market.
  - D. foreign exchange market.
22. One way for businesses to participate in the global economy is to
- A. invest in businesses from other countries.
  - B. participate in foreign stock exchanges.
  - C. both a and b
  - D. neither a nor b
23. Joshua and Katie have a partnership agreement specifying that Joshua receives 40 percent of their company's profits and Katie receives the remainder. Last year, their company earned \$150,000 in profits. How much was Katie's share worth?
- 
24. Joshua and Katie have a partnership agreement specifying that Joshua receives 40 percent of their company's profits and Katie receives the remainder. This year, Joshua's share of the company profit was \$72,000. How much was Katie's share?
-

25. Amber is a sole proprietor who is trying to obtain financing for her new business. She needs \$25,000 to get her business started. Amber is putting up 50 percent of the amount herself. Her parents are giving her an additional \$5,000 to help her. She decides to apply for a bank loan for the remainder. How much more does she need?

\_\_\_\_\_

26. Of the 15,000 businesses in Lonesome County, 72 percent are sole proprietorships. How many businesses in the county are NOT organized in this way?

\_\_\_\_\_

27. Noah's bank offers a six-month certificate of deposit at 4 percent *annual* interest. If Noah invests \$1,000 in one of these CDs, how much will he have at the end of six months?

\_\_\_\_\_

28. Over the past 20 years or so, U.S. business investments in other countries have grown by 500 percent. Suppose \$500 billion was invested in other countries 20 years ago. How much is invested in other countries now?

\_\_\_\_\_

29. Suppose it takes 1.25 Canadian dollars to purchase one U.S. dollar. Francois has 100 Canadian dollars. How many U.S. dollars can he get for them?

\_\_\_\_\_

30. Use the exchange rate given in question 7. How many Canadian dollars can Eva get for her \$75 U.S. dollars?

\_\_\_\_\_

31. The science of decision making about the allocation of scarce resources is called \_\_\_\_\_.

\_\_\_\_\_

32. \_\_\_\_\_ are the means available to develop solutions for unsatisfied wants and needs.

\_\_\_\_\_

33. The price at which an equal number of products will be produced and purchased is called the \_\_\_\_\_ price.

\_\_\_\_\_

34. In a(n) \_\_\_\_\_ economy, the government has the primary influence on economic decisions.
- \_\_\_\_\_
35. A(n) \_\_\_\_\_ is a business owned and managed by one person; it can be formed with almost no legal requirements.
- \_\_\_\_\_
36. \_\_\_\_\_ are a percentage of corporate earnings allocated to each share of stock.
- \_\_\_\_\_
37. The \_\_\_\_\_ of an investment is the length of time the invested money is controlled by others.
- \_\_\_\_\_
38. The profit earned from an investment is called a financial \_\_\_\_\_.
- \_\_\_\_\_
39. \_\_\_\_\_ markets specialize in buying and selling financial instruments for short time periods of a year or less.
- \_\_\_\_\_
40. When an investor offers stocks and bonds for resale, they are known as a(n) \_\_\_\_\_ offering.
- \_\_\_\_\_
41. Provide a definition for the economic principle of *choice*. Economically speaking, why must individuals make choices?

42. Briefly explain the difference between microeconomics and macroeconomics.

43. Briefly explain how competition helps an economy.

44. In a free enterprise economy, what are the two primary ways that governments are involved in the organization of businesses?

45. Explain the difference between a general partner and a limited partner.

46. What is a *financial market*?

47. Two types of markets exist for the sale of commodities. Name them and briefly explain the difference between them.



48. Name at least three potential problems that must be considered by global businesses.
49. How many different categories of economic resources are available to countries and businesses? Name them and provide several examples of each.
50. Explain how the form of business ownership and organization can influence its financial condition.

## Chapter 2: Financial Environment of Business **Key**

1. In economics, capital resources are sometimes referred to as *labor*.

**FALSE**

2. The availability of resources limits the supply of products and services.

**TRUE**

3. The United States is a good example of a pure market economy.

**FALSE**

4. One major advantage of a partnership is that the partners are not personally liable for any of the business' debts.

**FALSE**

5. Anyone with the money to pay for a share of stock can become an owner of a private corporation.

**FALSE**

6. Investments with high financial risks also offer the opportunity for greater financial return.

**TRUE**

7. A bond is a financial instrument that obligates the issuer to pay the bondholder the principal plus interest at the end of a designated period.

**TRUE**

8. Businesses raise money needed for short-term operating expenses by selling treasury bills.

**FALSE**

9. Over the past 20 years, U.S. business investments in other countries has sharply decreased.

**FALSE**

10. The exchange rate for a country's currency is based on the supply and demand for that currency.

**TRUE**

11. This term refers to the economic principle stating that people have wants and needs that are greater than can be satisfied with the available products and services.
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- A. invest in businesses from other countries.
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  - C. both a and b
  - D. neither a nor b
23. Joshua and Katie have a partnership agreement specifying that Joshua receives 40 percent of their company's profits and Katie receives the remainder. Last year, their company earned \$150,000 in profits. How much was Katie's share worth?
- \$90,000**
24. Joshua and Katie have a partnership agreement specifying that Joshua receives 40 percent of their company's profits and Katie receives the remainder. This year, Joshua's share of the company profit was \$72,000. How much was Katie's share?
- \$108,000**

25. Amber is a sole proprietor who is trying to obtain financing for her new business. She needs \$25,000 to get her business started. Amber is putting up 50 percent of the amount herself. Her parents are giving her an additional \$5,000 to help her. She decides to apply for a bank loan for the remainder. How much more does she need?

**\$7,500**

26. Of the 15,000 businesses in Lonesome County, 72 percent are sole proprietorships. How many businesses in the county are NOT organized in this way?

**4,200**

27. Noah's bank offers a six-month certificate of deposit at 4 percent *annual* interest. If Noah invests \$1,000 in one of these CDs, how much will he have at the end of six months?

**\$1,020**

28. Over the past 20 years or so, U.S. business investments in other countries have grown by 500 percent. Suppose \$500 billion was invested in other countries 20 years ago. How much is invested in other countries now?

**\$2.5 trillion**

29. Suppose it takes 1.25 Canadian dollars to purchase one U.S. dollar. Francois has 100 Canadian dollars. How many U.S. dollars can he get for them?

**\$80**

30. Use the exchange rate given in question 7. How many Canadian dollars can Eva get for her \$75 U.S. dollars?

**93.75**

31. The science of decision making about the allocation of scarce resources is called \_\_\_\_\_.

**economics**

32. \_\_\_\_\_ are the means available to develop solutions for unsatisfied wants and needs.

**Resources**

33. The price at which an equal number of products will be produced and purchased is called the \_\_\_\_\_ price.

**market**

34. In a(n) \_\_\_\_\_ economy, the government has the primary influence on economic decisions.

**command**

35. A(n) \_\_\_\_\_ is a business owned and managed by one person; it can be formed with almost no legal requirements.

**sole proprietorship**

36. \_\_\_\_\_ are a percentage of corporate earnings allocated to each share of stock.

**Dividends**

37. The \_\_\_\_\_ of an investment is the length of time the invested money is controlled by others.

**term**

38. The profit earned from an investment is called a financial \_\_\_\_\_.

**return**

39. \_\_\_\_\_ markets specialize in buying and selling financial instruments for short time periods of a year or less.

**Money**

40. When an investor offers stocks and bonds for resale, they are known as a(n) \_\_\_\_\_ offering.

**secondary**

41. Provide a definition for the economic principle of *choice*. Economically speaking, why must individuals make choices?

Choice means deciding which wants and needs will be satisfied and which will go unsatisfied. Individuals must make choices because of scarcity.

42. Briefly explain the difference between microeconomics and macroeconomics.

Microeconomics refers to the choices of individuals and businesses; macroeconomics is concerned with economic decisions made at the national level.

43. Briefly explain how competition helps an economy.

Competition helps an economy by increasing the number of product choices and controlling the prices at which products/services are sold.

44. In a free enterprise economy, what are the two primary ways that governments are involved in the organization of businesses?

The two primary ways are in legal requirements and taxation.

45. Explain the difference between a general partner and a limited partner.

A general partner has operating responsibilities and is liable for all of the business' debts. In contrast, a limited partner is merely an investor. Limited partners are not involved in the business' daily operations, but their liability is limited to the amount of their investment.

46. What is a *financial market*?

A financial market is an organized process for the exchange of capital and credit.

47. Two types of markets exist for the sale of commodities. Name them and briefly explain the difference between them.

The two types of commodities markets are spot markets and futures markets. Spot markets buy and sell products for immediate delivery; futures markets are contracts negotiated for the sale of products at some future date.

48. Name at least three potential problems that must be considered by global businesses.

Potential problems include (1) language/cultural differences between employees and customers, (2) possible government instability, (3) differing economic philosophies, and (4) different money systems and fluctuating monetary values.

49. How many different categories of economic resources are available to countries and businesses? Name them and provide several examples of each.

There are three categories of economic resources. Natural resources are the materials in the world around us. They include land, water, minerals, and forests. A second category of resources is capital resources—the human-made goods used in the production of other products and services. Examples include factories, machines, tools, and vehicles. The third category of resources is human resources; that is, people and their skills, both physical and mental.

50. Explain how the form of business ownership and organization can influence its financial condition.

The form of business ownership and organization can determine how much money is available to start the business, how additional funds can be obtained when needed, how income and expenses are allocated and accounted for, and even the amount of taxes paid by the business and business owner. The way a business is organized also determines how investors are compensated for their risk.