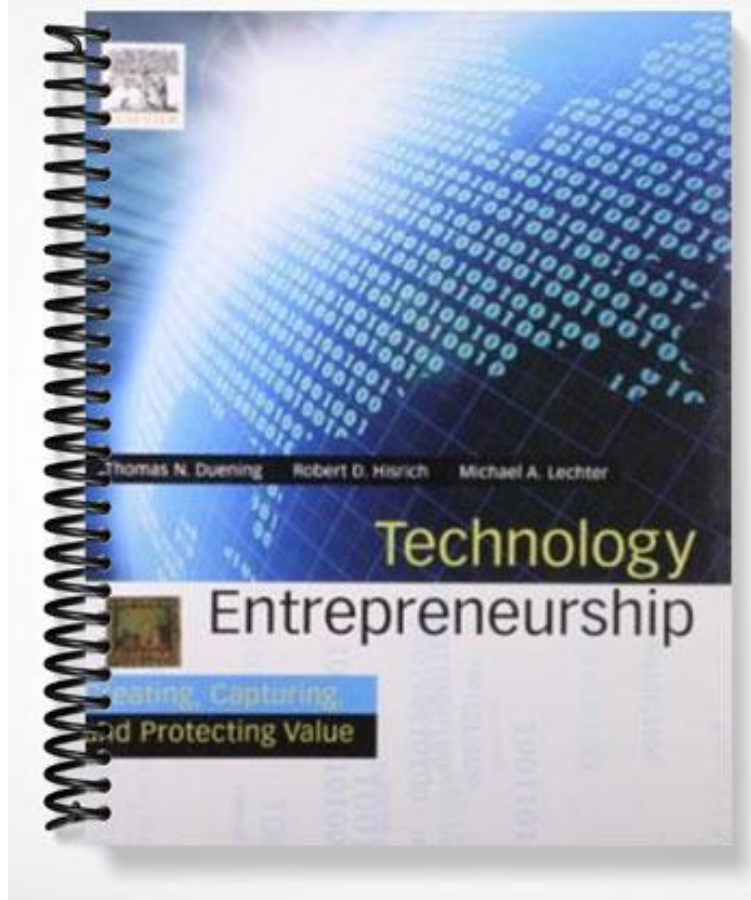


TEST BANK



Chapter 2 - Fundamentals Of Economics In A Global Context

1. Three issues are key to understanding economics—resources, goods and services, and allocation of resources and products. Which of the following statement is not true in this regard?
- A) The question “What goods and services will be produced, and in what quantities?” must be answered while making choices about allocation.
 - B) The issue of allocation is limited to scarce resources.
 - C) Without human resources, no productive use of either natural or capital resources is possible.
 - D) Knowledge resources concern both, the accumulated knowledge as well as the processes for creating new knowledge.

Answer: B

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2. In a strong _____ economy, the underlying law of supply and demand dominates the allocation of goods and services.
- A) socialist
 - B) communist
 - C) capitalist
 - D) mixed

Answer: C

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3. A textile company sets the price of its product by adding all the costs involved in manufacturing and distributing the product plus a specific percentage as profit on the product. This type of pricing strategy is known as _____.
- A) price skimming
 - B) value based pricing
 - C) penetration pricing
 - D) cost-plus pricing

Answer: D

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4. If supply is held static, demand is _____ to the price.
- A) directly proportional
 - B) inversely proportional
 - C) equal
 - D) not related

Answer: A

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5. If demand is held static, supply is _____ to the price.
- A) not related
 - B) inversely proportional
 - C) equal
 - D) directly proportional

Answer: B

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6. The consumption rate of salt is based primarily on physiological need; whatever is the price of salt, people will not buy more than normal. The market for salt is an example of a(n) _____.
- A) volatile market
 - B) elastic market
 - C) variable market
 - D) inelastic market

Answer: D

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7. An organization spends \$1000 on wages, and \$1500 on raw materials. If the revenue of the organization is \$10,000, identify the gross margin of the organization.
- A) \$8500
 - B) \$9000
 - C) \$7500
 - D) \$9500

Answer: C

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8. Businesses that are able to raise prices without cost increases and without sacrificing sales volume possess what is called _____.
- A) sales power
 - B) status quo
 - C) production power
 - D) pricing power

Answer: D

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9. _____ inflation is caused by a market demand that is greater than the available product supply.
- A) Demand-push
 - B) Cost-pull
 - C) Demand-pull
 - D) Cost-push

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Answer: C

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10. _____ inflation is caused by a shortage in the available supply of labor or materials that causes the cost of these items to increase.
- A) Demand-pull
 - B) Cost-pull
 - C) Cost-push
 - D) Demand-push

Answer: C

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11. A company undertakes _____ as a price strategy in order to enter a market, or to sell goods that are no longer wanted by consumers in the home market.
- A) status quo
 - B) dumping
 - C) price gouging
 - D) skimming

Answer: B

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12. _____ is prohibited in the United States.
- A) Penetration pricing
 - B) Price skimming
 - C) Dumping
 - D) Cost-plus pricing

Answer: C

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13. Which of the following is not true about the Federal Reserve Board?
- A) It sets the US monetary policy.
 - B) It has the power to print currency and strike coinage.
 - C) It inserts money into the economy by buying long-term corporate bonds.
 - D) It regulates the growth of the economy.

Answer: C

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14. Which of the following is not true about economic systems?
- A) In socialism, government planning, rather than the market, is relied on to coordinate economic activity.
 - B) Communism is a form of autocratic state socialism.

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- C) In a socialist economy, management of enterprises is managed by owners.
- D) In a capitalist economy, individuals are free to do whatever they want as long as it's legal.

Answer: C

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15. Japan has _____ advantage in producing electronic goods.

- A) superlative
- B) comparative
- C) absolute
- D) collaborative

Answer: B

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16. Which of the following is not true about international trade in the United States?

- A) The United States has its greatest comparative advantage in food products, engineering, medical technology, software, aircraft, and coal.
- B) The fastest-growing U.S. exports are music, video, software, cigarettes and tobacco products, meat, pulp and wastepaper, and synthetic resins, rubber, and plastics.
- C) The U.S. balance of payment as a percentage of GDP is declining consistently since the 1960's.
- D) The U.S. has become primarily an import economy since the early 1990s.

Answer: C

Page: 47-48, Exhibit 2.6

17. Which one of the following is a function of the International Monetary Fund (IMF)?

- A) To help minimize the rigidity of the fixed exchange rate and lend to member countries to cover short-term periods of balance-of-payment deficits.
- B) To provide companies with insurance to mitigate the risk associated with investing in developing countries.
- C) To leverage the rules and opportunities those are created by international and regional trade agreements.
- D) To liberalize trade by eliminating or reducing tariffs, subsidies, and import quotas.

Answer: A

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18. According to the text, the _____ provides companies with insurance to mitigate the risk associated with investing in developing countries.

- A) International Development Association (IDA)
- B) International Financial Corporation (IFC)
- C) Multinational Investment Guarantee Agency (MIGA)

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D) International Centre for Settlement of Investment Disputes (ICSID)

Answer: C

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19. North American Free Trade Agreement (NAFTA) facilitates trades between which of the following countries?

- A) United States, Brazil, and Mexico
- B) United States, Canada, and Brazil
- C) United States, Cuba, and Mexico
- D) United States, Canada, and Mexico

Answer: D

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20. The _____ was established in 1995 as the appellate body within the World Trade Organization to monitor member country's policies.

- A) Dispute Settlement Board (DSB)
- B) International Centre for Settlement of Investment Disputes (ICSID)
- C) International Development Association (IDA)
- D) Multinational Investment Guarantee Agency (MIGA)

Answer: A

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