***Business Foundations: A Changing World, 12e* (Ferrell)**

**Chapter 1 The Dynamics of Business and Economics**

1) When you take your clothes to the dry cleaner to be cleaned or go to the spa to get a massage, you are *not* receiving a product because you have not received anything tangible in return.

Answer: FALSE

Explanation: Most people associate the word product with tangible goods—an automobile, for example. However, a product can also be a service, which occurs when people or machines provide or process something of value to customers.

Difficulty: 2 Medium

Topic: Classification of Products

Learning Objective: 01-01 Define basic concepts such as business, product, profit, and economics.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

2) Economics refers to all activities concerned with obtaining money and using it effectively.

Answer: FALSE

Explanation: Finance refers to all activities concerned with obtaining money and using it effectively. Financial resources must be managed effectively if the business aims to succeed.

Difficulty: 1 Easy

Topic: Skills Needed to be Successful in Business

Learning Objective: 01-02 Identify the main participants and activities of business.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

3) The focus of all marketing activities is the successful transformation of resources into goods and services.

Answer: FALSE

Explanation: The focus of all marketing activities is providing goods and services that satisfy consumers' needs. How resources are transformed into goods and services is the focus of operations management.

Difficulty: 1 Easy

Topic: Skills Needed to be Successful in Business

Learning Objective: 01-02 Identify the main participants and activities of business.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

4) All economic systems must address three important issues, one of which is how the goods and services will be produced.

Answer: TRUE

Explanation: All economic systems must address what goods and services will satisfy consumers' needs, how the goods and services will be produced, and how the goods and services will be distributed to consumers.

Difficulty: 1 Easy

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

5) The equilibrium price is represented by the point where a product's supply and demand curves intersect.

Answer: TRUE

Explanation: The price at which the number of products that businesses are willing to supply is equal to the amount of products that consumers are willing to buy at a specific point in time is the equilibrium price.

Difficulty: 2 Medium

Topic: The Forces of Supply and Demand

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

6) While ethical behavior can enhance a company's reputation, it often has a negative effect on the company's financial performance.

Answer: FALSE

Explanation: Research has shown that ethical behavior can not only enhance a company's reputation but can also drive profits.

Difficulty: 1 Easy

Topic: The Ethical Concerns that Affect Business

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

7) \_\_\_\_\_\_\_\_ is the primary goal of business.

A) Service

B) Profit

C) Innovation

D) Quality

E) Strategy

Answer: B

Explanation: The primary goal of all businesses is to earn a profit, the difference between what it costs to make and sell a product and what a customer pays for it.

Difficulty: 1 Easy

Topic: Definition of Business

Learning Objective: 01-01 Define basic concepts such as business, product, profit, and economics.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

8) Businesses differ from nonprofit organizations in that a business's focus is on

A) profit.

B) goods.

C) price.

D) charity.

E) fund-raising.

Answer: A

Explanation: Businesses strive to earn profits; nonprofit organizations do not. Nonprofit organizations do not have the fundamental purpose of earning profits, although they may provide goods or services and engage in fund-raising.

Difficulty: 1 Easy

Topic: Definition of Business

Learning Objective: 01-01 Define basic concepts such as business, product, profit, and economics.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

9) Which of the following is an example of an intangible product?

A) a movie DVD

B) a kitten

C) perfume

D) a music concert

E) jewelry

Answer: D

Explanation: Most people associate the word *product* with tangible goods. However, a product can also be a service, which occurs when people or machines provide or process something of value to customers. Some examples of services include dry cleaning, a checkup by a doctor, and a movie or sports event.

Difficulty: 1 Easy

Topic: Classification of Products

Learning Objective: 01-01 Define basic concepts such as business, product, profit, and economics.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

10) Amit hired an attorney to help him draft a purchase and sale agreement for his new home. The home is an example of a product that is a(n)

A) idea.

B) service.

C) tangible item.

D) process.

E) intangible good.

Answer: C

Explanation: A home is a tangible product.

Difficulty: 2 Medium

Topic: Classification of Products

Learning Objective: 01-01 Define basic concepts such as business, product, profit, and economics.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

11) Which of the following is an example of a tangible product?

A) an automobile

B) a movie

C) a haircut

D) a music concert

E) a business conference

Answer: A

Explanation: An automobile is a tangible product.

Difficulty: 1 Easy

Topic: Classification of Products

Learning Objective: 01-01 Define basic concepts such as business, product, profit, and economics.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

12) Which statement is true about businesses and profits?

A) Profit making is a business activity that seldom requires risk taking.

B) Businesses do not have the right to use their profits the way they choose.

C) Profit-making businesses often weaken the economy of a country.

D) Earning profits contributes to society by creating resources that support social institutions and government.

E) Ignoring the interests of stakeholders is the best way for a business to be profitable.

Answer: D

Explanation: Earning profits contributes to society by creating resources that support our social institutions and government. Businesses that create profits, pay taxes, and create jobs are the foundation of our economy.

Difficulty: 2 Medium

Topic: Definition of Business

Learning Objective: 01-01 Define basic concepts such as business, product, profit, and economics.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

13) Which of the following is NOT an accurate statement regarding nonprofit organizations?

A) They may provide goods and services.

B) They engage in fund-raising.

C) They have the fundamental goal of earning profits.

D) They utilize skills related to management, marketing, and finance.

E) They include charities and social causes.

Answer: C

Explanation: Nonprofit organizations may provide goods or services and engage in fund-raising. They also utilize skills related to management, marketing, and finance. Some examples of nonprofit organizations are National Public Radio, Habitat for Humanity, and other charities and social causes. However, nonprofit organizations do not have the fundamental goal of earning profits.

Difficulty: 2 Medium

Topic: Definition of Business

Learning Objective: 01-01 Define basic concepts such as business, product, profit, and economics.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

14) All the groups that have an interest in an organization's success and outcomes are known as the organization's

A) agencies.

B) stakeholders.

C) owners.

D) investors.

E) shareholders.

Answer: B

Explanation: Groups that have a stake in the success and outcomes of a business are called stakeholders.

Difficulty: 1 Easy

Topic: Definition of Business

Learning Objective: 01-01 Define basic concepts such as business, product, profit, and economics.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

15) Master Motors is working to find a way to produce the SUVs and trucks its customers want while meeting environmental requirements. This is an effort to please multiple

A) shareholders.

B) clients.

C) stakeholders.

D) businesses.

E) priorities.

Answer: C

Explanation: This is an example of a company that is trying to please multiple stakeholders. New fuel requirements are forcing automakers to invest in smaller, lightweight cars. During times of low fuel prices, consumers tend to prefer bigger SUVs and trucks, putting more of a strain on automakers to meet environmental requirements as well as consumer demands.

Difficulty: 3 Hard

Topic: Definition of Business

Learning Objective: 01-01 Define basic concepts such as business, product, profit, and economics.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

16) Which is the BEST example of a business trying to balance the needs of various stakeholders?

A) Pete's Pest Control Company is trying to develop an eco-friendly insecticide that will eliminate crop-killing pests and still adhere to environmental regulations.

B) Even though Joe's Outdoor World received a quantity discount from the manufacturer on gas grills, the company is still going to sell them at the full retail price.

C) To make sure she keeps up with the competition, Amber's Gelato Shoppe offers money-saving coupons during the summer months.

D) A sporting goods store wonders if it should sell football equipment year-round as opposed to just the fall and winter months.

E) Even though it might reduce profits, Bill's Big and Tall Store wonders if it should offer free shipping to its online customers.

Answer: A

Explanation: To achieve and maintain profitability, a business must balance the needs of its various stakeholders (customers, employees, investors, government regulators, and the community). Pete's Pest Control is trying to balance the needs of its customers by providing a quality product; the community, by making it eco-friendly; and government regulators, by making sure it adheres to all regulations.

Difficulty: 3 Hard

Topic: Definition of Business

Learning Objective: 01-02 Identify the main participants and activities of business.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

17) Among the major activities of business, which of the following is an element of management?

A) obtain financing

B) conduct product research

C) engage in personal selling

D) promote sales

E) acquire resources

Answer: E

Explanation: Management is concerned with acquiring, developing, and using resources (including people) effectively and efficiently. It also involves coordinating employees' actions to achieve the firm's goals, organizing people to work efficiently, and motivating them to achieve the business's goals.

Difficulty: 1 Easy

Topic: Skills Needed to be Successful in Business

Learning Objective: 01-02 Identify the main participants and activities of business.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

18) Talia is the owner of a small business. She has an HR person, an operations manager, a marketing manager, and a sales manager on staff. Who is responsible for the financial decisions that arise in the course of business?

A) the HR person

B) the operations manager

C) the sales manager

D) the marketing manager

E) Talia, the owner

Answer: E

Explanation: The owner of a company has the ultimate responsibility for all financial issues.

Difficulty: 2 Medium

Topic: Definition of Business; The Advantages and Disadvantages of Small Business Ownership

Learning Objective: 01-02 Identify the main participants and activities of business.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

19) What is true regarding the responsibilities of the people involved in a business?

A) The finance department is concerned with acquiring, developing, and using human resources effectively and efficiently.

B) The marketing team handles all activities concerned with obtaining money for the firm and using it effectively.

C) The managers of nonprofit organizations conduct all kinds of business operations except collecting funds.

D) The managers of a business are not involved in the day-to-day functions of production and manufacturing.

E) The primary responsibility of providing financial resources for the operation of the business lies with the business owners.

Answer: E

Explanation: Although management and marketing have to deal with financial considerations, it is the primary responsibility of the owners to provide financial resources for the operation of the business.

Difficulty: 2 Medium

Topic: Definition of Business

Learning Objective: 01-02 Identify the main participants and activities of business.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

20) Ronan works for a custom furniture manufacturer. His job is to oversee the process of taking raw materials—lumber, fabric, and metal components—and ensure that they are transformed to the customer's exact specifications. Ronan's job falls under the business activity known as

A) operations.

B) advertising.

C) sales promotion.

D) finance.

E) marketing.

Answer: A

Explanation: Operations is another element of management. Managers must oversee the firm's operations to ensure that resources are successfully transformed into goods and services.

Difficulty: 2 Medium

Topic: Functions of Management

Learning Objective: 01-02 Identify the main participants and activities of business.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

21) Tanveer has responsibility for the functions of organizing, staffing, planning, and controlling activities in a large company. These functions are most closely associated with

A) managers.

B) assembly line workers.

C) investment advisors.

D) stockbrokers.

E) direct sales executives.

Answer: A

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

Difficulty: 2 Medium

Topic: Functions of Management

Learning Objective: 01-02 Identify the main participants and activities of business.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

22) Allie, the manager of a new pet grooming company, makes sure her grooming salon always has plenty of treats and toys for the animals as well as beverages and snacks for their owners to ensure a quality customer service experience. This is an example of the \_\_\_\_\_\_\_\_ element of management.

A) service

B) leadership

C) decision making

D) motivational

E) operations

Answer: E

Explanation: This is an example of the operations element of management. Managers are concerned with transforming resources such as employee actions and amenities into a quality customer service experience.

Difficulty: 3 Hard

Topic: Functions of Management

Learning Objective: 01-02 Identify the main participants and activities of business.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

23) \_\_\_\_\_\_\_\_ gather information and conduct research to determine what customers want. They also plan and develop products and make decisions about how much to charge for their products and when and where to make them available.

A) Accountants

B) Engineers

C) Marketers

D) Supervisors

E) Operations Managers

Answer: C

Explanation: Marketing includes all the activities designed to provide goods and services that satisfy customers' needs and wants. Marketers gather information and conduct research to determine what customers want. They also plan and develop products and make decisions about how much to charge for their products and when and where to make them available.

Difficulty: 2 Medium

Topic: The Marketing Mix

Learning Objective: 01-02 Identify the main participants and activities of business.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

24) The focus of all marketing activity is to

A) promote products better than the competition.

B) transform resources into goods and services.

C) provide financial resources for the operation of the business.

D) satisfy the needs and wants of consumers.

E) coordinate employees' actions to achieve the firm's goals.

Answer: D

Explanation: Marketing and consumers are in the same segment because the focus of all marketing activities is to satisfy customers. Marketing includes all the activities designed to provide goods and services that satisfy consumers' needs and wants.

Difficulty: 2 Medium

Topic: The Marketing Plan

Learning Objective: 01-02 Identify the main participants and activities of business.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

25) Advertising, personal selling, coupons, and sweepstakes are elements included in the \_\_\_\_\_\_\_\_ aspect of marketing activities.

A) product

B) promotion

C) distribution

D) price

E) place

Answer: B

Explanation: Marketing focuses on the four P's, which include product, price, place, and promotion. Advertising, personal selling, sales promotion, and publicity are part of the promotion aspect of marketing.

Difficulty: 1 Easy

Topic: The Marketing Mix

Learning Objective: 01-02 Identify the main participants and activities of business.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

26) Fabulous Fitness has a new exercise video that it hopes will increase its sales. It is offering coupons and a sweepstakes to get people to buy the video. These are examples of

A) sales promotion.

B) publicity.

C) advertising.

D) personal selling.

E) direct retail.

Answer: A

Explanation: Marketers use promotion—advertising, personal selling, sales promotion (coupons, games, sweepstakes, movie tie-ins), and publicity—to communicate the benefits and advantages of their products to consumers and increase sales. Nonprofit organizations also use promotion.

Difficulty: 1 Easy

Topic: The Marketing Mix

Learning Objective: 01-02 Identify the main participants and activities of business.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

27) Decisions regarding product adoption, development, branding, and positioning fall under which element of the marketing mix?

A) price

B) product

C) place

D) distribution

E) promotion

Answer: B

Explanation: Marketing focuses on the four P's—product, price, place (or distribution), and promotion—also known as the marketing mix. Product management involves such key management decisions as product adoption, development, branding, and product positioning.

Difficulty: 2 Medium

Topic: The Marketing Mix

Learning Objective: 01-02 Identify the main participants and activities of business.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

28) When a business fails or does not make a profit, \_\_\_\_\_\_\_\_ have the most to lose in terms of finances.

A) consumers

B) media agencies

C) government bodies

D) owners

E) accountants

Answer: D

Explanation: It is the primary responsibility of the owners to provide financial resources for the operation of the business. Moreover, the owners have the most to lose if the business fails to make a profit.

Difficulty: 2 Medium

Topic: Definition of Business

Learning Objective: 01-02 Identify the main participants and activities of business.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

29) Leon is an accountant for a small company. As such, he participates primarily in \_\_\_\_\_\_\_\_ activities.

A) management

B) financial

C) operations

D) marketing

E) advertising

Answer: B

Explanation: Finance refers to all activities concerned with obtaining money and using it effectively. People who work as accountants, stockbrokers, investment advisors, or bankers are all part of the financial world.

Difficulty: 1 Easy

Topic: Definition of Business

Learning Objective: 01-02 Identify the main participants and activities of business.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

30) The study of how resources are distributed for the production of goods and services within a social system is referred to as

A) public relations.

B) sociology.

C) investment management.

D) operations management.

E) economics.

Answer: E

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

Difficulty: 1 Easy

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-01 Define basic concepts such as business, product, profit, and economics.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

31) A firm's \_\_\_\_\_\_\_\_ resources are also known as labor.

A) economic

B) human

C) intangible

D) financial

E) natural

Answer: B

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

Difficulty: 1 Easy

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

32) Quentin owns a company that makes metal and wooden signs. In order to acquire the different kinds of wood and steel he needs to make his product, Quentin needs

A) natural resources.

B) labor.

C) capital.

D) factors of production.

E) economics.

Answer: C

Explanation: Financial resources, or capital, are the funds used to acquire the natural and human resources needed to provide products.

Difficulty: 2 Medium

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

33) The factors of production are the

A) systems and processes used to make goods and services.

B) means of distributing wealth within a country.

C) obstacles present in a competitive environment that limit production.

D) land, labor, capital, and enterprise used to produce goods and services.

E) management, marketing, and finance activities of a business.

Answer: D

Explanation: The factors of production consist of land, labor, capital, and enterprise used to produce goods and services.

Difficulty: 1 Easy

Topic: The Factors of Production

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

34) Which of the following is a natural resource?

A) minerals

B) people

C) capital

D) money

E) labor

Answer: A

Explanation: Land, forests, minerals, water, and other things that are not made by people are natural resources.

Difficulty: 1 Easy

Topic: The Factors of Production

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

35) Which of the following is an intangible resource?

A) physical and mental abilities of people

B) forests and minerals

C) economic capital

D) financial assets

E) company reputation

Answer: E

Explanation: A firm can have intangible resources such as a good reputation for quality products or being socially responsible.

Difficulty: 1 Easy

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

36) \_\_\_\_\_\_\_\_ describe(s) how a particular society distributes its resources to produce goods and services.

A) A labor system

B) An economic system

C) A political ideology

D) A legal framework

E) The factors of production

Answer: B

Explanation: An economic system describes how a particular society distributes its resources to produce goods and services. A central issue of economics is how to fulfill an unlimited demand for goods and services in a world with a limited supply of resources.

Difficulty: 1 Easy

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

37) Who subscribes to the ideals of a communist economy as proposed by Karl Marx?

A) Felix believes that in a society, people should contribute according to their ability and receive benefits according to what they need.

B) Esther believes that the government should own only basic industries, like utilities and the postal service, and that individuals should own most small businesses.

C) Ned believes that supply and demand should determine what goods and services are produced and that business owners should be able to keep the profits they make.

D) Isra thinks that a society runs better when people have an unlimited choice of careers and the government stays out of small business ownership.

E) Maria believes that profits earned by a small business should be reinvested in the business and that profits earned by the government should remain with the government.

Answer: A

Explanation: In Karl Marx's view of an ideal communist system, everyone contributes according to ability and receives benefits according to need. In a communist economy, the people own and operate all businesses and factors of production, but they are allocated through the government.

Difficulty: 3 Hard

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

38) Which of the following is considered a command economy?

A) capitalism

B) free-market

C) private enterprise

D) communism

E) laissez-faire market

Answer: D

Explanation: In many cases, the government owns or controls the production of goods and services. Communism and socialism are, therefore, considered command economies.

Difficulty: 1 Easy

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

39) Which of the following is a characteristic of communist economies in reality?

A) critical shortages of consumer goods

B) high standards of living

C) low prices

D) excessive freedom

E) absence of corruption

Answer: A

Explanation: On paper, communism appears to be efficient and equitable, producing less of a gap between rich and poor. In practice, however, communist economies have been marked by low standards of living, critical shortages of consumer goods, high prices, corruption, and little freedom.

Difficulty: 2 Medium

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

40) Which communist country was the first to make strong economic gains by adopting capitalist approaches to business?

A) Singapore

B) India

C) Thailand

D) China

E) Japan

Answer: D

Explanation: China has become the first communist country to make strong economic gains by adopting capitalist approaches to business. Economic prosperity has advanced in China with the government claiming to ensure market openness, equality, and fairness through state capitalism.

Difficulty: 1 Easy

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

41) How are profits handled in communist systems?

A) Profits earned by small businesses may be reinvested in the business.

B) Individuals are free to keep profits after paying taxes.

C) Businesses are free to keep profits after paying taxes.

D) Excess income goes to the government.

E) Only profits from government-owned industries go to the government.

Answer: D

Explanation: In communist systems, excess income goes to the government. The government supports social and economic institutions.

Difficulty: 2 Medium

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

42) What is true of product availability in a communist system?

A) Consumers have no choice in the goods and services that are offered.

B) Consumers have a wide choice of services but not goods.

C) Consumers have a limited choice of both goods and services.

D) Consumers have a wide choice of goods, but they are expensive.

E) Consumers have a limited choice of goods, but they are inexpensive.

Answer: C

Explanation: In a communist system, consumers have a limited choice of goods and services; prices are usually high.

Difficulty: 2 Medium

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

43) In which economic system do most people work for government-owned industries or farms?

A) capitalist

B) communist

C) socialist

D) libertarian

E) free-enterprise

Answer: B

Explanation: In a communist system, people have little choice in choosing a career and most work for government-owned industries or farms.

Difficulty: 2 Medium

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

44) What is true in a socialist economy?

A) The government owns all businesses, large and small.

B) Everyone works for government organizations.

C) Competition is restricted in basic industries.

D) Consumers have a wide choice of goods and services.

E) Demand and supply have no role to play in the pricing of products and services.

Answer: C

Explanation: In socialist systems, competition is restricted in basic industries but encouraged in small business.

Difficulty: 2 Medium

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

45) \_\_\_\_\_\_\_\_ is an economic system in which the government owns and operates basic industries such as utilities, health care, and banking.

A) Collectivism

B) Capitalism

C) Socialism

D) Egalitarianism

E) Utilitarianism

Answer: C

Explanation: Socialism is an economic system in which the government owns and operates basic industries, including the postal service, telephone, utilities, transportation, health care, banking, and some manufacturing. However, individuals own most businesses.

Difficulty: 1 Easy

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

46) Which statement is true regarding a socialist system of economy?

A) Individuals own and operate the majority of businesses that provide goods and services.

B) Central planning determines what basic goods and services are produced.

C) Competition, supply, and demand determine which goods and services are produced and how they are produced.

D) All economic decisions are made without government intervention.

E) Consumers have a wide choice of goods and services.

Answer: B

Explanation: In socialist systems, competition is restricted in major industries but encouraged in small business. Central planning determines what basic goods and services are produced, how they are produced, and how they are distributed. Individuals and small businesses provide other goods and services based on consumer demand and the availability of resources.

Difficulty: 2 Medium

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

47) Chi Ling lives in a country where income and social services are distributed equally among its citizens. However, the citizens must pay high taxes and the country often experiences high levels of unemployment. Chi Ling lives in a(n) \_\_\_\_\_\_\_\_ nation.

A) communist

B) socialist

C) capitalist

D) supply and demand

E) free-enterprise

Answer: B

Explanation: This is an example of a socialist nation. Socialist economies profess egalitarianism, or equal distribution of income and social services, claiming this creates a more stable economy. However, taxes and unemployment are generally higher in socialist countries.

Difficulty: 3 Hard

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

48) Egalitarianism refers to the

A) exemption of taxes for successful businesses.

B) restrictions on taking up nongovernment jobs.

C) equal distribution of income and social services.

D) concept of the rich getting richer and the poor getting poorer.

E) restriction of competition in small businesses by government regulations.

Answer: C

Explanation: Socialist economies profess egalitarianism—equal distribution of income and social services.

Difficulty: 1 Easy

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

49) What is true of a free-market system?

A) Laissez-faire capitalism is absent.

B) Most businesses are owned and operated by the government.

C) Egalitarianism is the norm.

D) All economic decisions are made without government intervention.

E) Central government planning determines what goods and services satisfy citizens' needs.

Answer: D

Explanation: In pure capitalism, also called a free-market system, all economic decisions are made without government intervention.

Difficulty: 2 Medium

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

50) What is true of a capitalist economic system?

A) The government owns and operates all businesses.

B) There is little scope for competition.

C) Consumers have a limited choice of goods and services.

D) The majority of people possess government jobs.

E) Prices of goods and services are determined by supply and demand.

Answer: E

Explanation: In a capitalist economic system, consumers have a wide choice of goods and services; prices are determined by supply and demand.

Difficulty: 2 Medium

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

51) \_\_\_\_\_\_\_\_ is often called the father of capitalism.

A) Karl Marx

B) George Washington

C) Benjamin Franklin

D) Alexander Hamilton

E) Adam Smith

Answer: E

Explanation: The modern free-market system was first described by Adam Smith in *The Wealth of Nations* in 1776. Smith, often called the father of capitalism, believed that the "invisible hand of competition" best regulates the economy.

Difficulty: 1 Easy

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

52) How does modified capitalism differ from pure capitalism?

A) In pure capitalism, the government intervenes and regulates all business.

B) In modified capitalism, the government doesn't intervene or regulate business at all.

C) In modified capitalism, the government intervenes and regulates business to some extent.

D) In pure capitalism, the government intervenes and regulates basic industries only.

E) In modified capitalism, the government relies on individuals to regulate all aspects of business, including passing laws.

Answer: C

Explanation: In pure capitalism, all economic decisions are made without government intervention. Modified capitalism differs from pure capitalism in that the government intervenes and regulates business to some extent. One way the United States and Canadian governments regulate business is through laws.

Difficulty: 2 Medium

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

53) A county encourages individuals to own and operate the majority of businesses, but its government passes laws to enforce fair business practices such as labor laws, antitrust legislation, and laws against deceptive advertising. This is an example of

A) modified capitalism.

B) pure capitalism.

C) laissez-faire capitalism.

D) communism.

E) socialism.

Answer: A

Explanation: This is an example of modified capitalism. In this system, the government intervenes and regulates business to some extent. One way a government can regulate business is through laws. In the United States, laws such as the Federal Trade Commission Act, which created the Federal Trade Commission to enforce antitrust laws, illustrate the importance of the government's role in the economy.

Difficulty: 3 Hard

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

54) Which country is an example of an economic system based on capitalism?

A) Russia

B) Sweden

C) Japan

D) India

E) Israel

Answer: C

Explanation: The United States, Canada, Japan, and Australia are examples of economic systems based on capitalism.

Difficulty: 1 Easy

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

55) All of the following are examples of mixed economies EXCEPT

A) in socialist France, the French government owns the postal service industry.

B) in socialist Sweden, most businesses are owned and operated by private individuals.

C) in capitalist United States, an independent federal agency operates the postal service.

D) in once-communist Russia, private ownership of businesses has been implemented.

E) in communist China, state capitalism is used to advance the economy.

Answer: A

Explanation: In socialism, the government owns and operates basic industries. For example, the French government owns the postal service industry. Mixed economies have elements from more than one economic system. For instance, in socialist Sweden, most businesses are owned and operated by private individuals; in capitalist United States, an independent federal agency operates the postal service; in once-communist Russia, private ownership of businesses has been implemented; and in communist China, state capitalism has been used to advance the economy.

Difficulty: 3 Hard

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

56) Oscar is a real estate entrepreneur in a country that promotes the individual right to own property, earn profits, make decisions about business operations, and choose productivity systems. Which system best describes Oscar's business environment?

A) mixed economy

B) free market

C) capitalist

D) free enterprise

E) socialist

Answer: D

Explanation: This scenario exemplifies free enterprise. For free enterprise to work, individuals and businesses must have the right to own property and pass it on to heirs; earn profits and use those profits as they wish; make decisions that determine the way the business operates; and choose their location, what goods and services to purchase or produce, what resources to use in the production process, and so on.

Difficulty: 3 Hard

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

57) The quantity of goods and services that consumers are willing to buy at different prices at a specific time is referred to as

A) demand.

B) supply.

C) the market quantity.

D) the balance of payments.

E) gross domestic product.

Answer: A

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

Difficulty: 1 Easy

Topic: The Forces of Supply and Demand

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

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

A) bundled price

B) equilibrium price

C) discount price

D) competitive price

E) maximum retail price

Answer: B

Explanation: The equilibrium price is defined as the price at which the number of products that businesses are willing to supply equals the number of products consumers are willing to purchase at a specific point in time.

Difficulty: 1 Easy

Topic: The Forces of Supply and Demand

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

59) The quantity of products that businesses are willing to sell at different prices at a specific time is referred to as

A) the equilibrium quantity.

B) market distribution.

C) the equilibrium point.

D) demand.

E) supply.

Answer: E

Explanation: Supply is the number of products that businesses are willing to sell at different prices at a specific time. In general, because the potential for profits is higher, businesses are willing to supply more of a good or service at higher prices.

Difficulty: 1 Easy

Topic: The Forces of Supply and Demand

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

60) Generally, when a retailer announces a discount sale on all its products, what happens?

A) Consumers will not demand more than usual.

B) The store will not supply more products than it normally does.

C) Consumers will demand more products.

D) The manufacturer will halt production.

E) Consumers will demand fewer products than usual.

Answer: C

Explanation: Generally, when prices decrease, consumers will increase demand.

Difficulty: 2 Medium

Topic: The Forces of Supply and Demand

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

61) Kristy is a member of a warehouse club. She likes shopping there because she can buy items like toilet paper and groceries in bulk to save money. This relates to which element of supply and demand?

A) demand

B) supply

C) equilibrium

D) profit

E) product availability

Answer: A

Explanation: Shopping at wholesale clubs is an element of demand. Consumers are usually willing to buy more of an item as its price falls because they want to save money.

Difficulty: 3 Hard

Topic: The Forces of Supply and Demand

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

62) Which statement describes the force that drives the distribution of resources (goods and services, labor, and money) in a free-enterprise economy?

A) Prices for goods and services vary according to the changes in supply and demand.

B) Supply and demand curves intersect at the point where supply and demand are not equal.

C) Changing the price of a product does not alter the supply curve.

D) The price at which the number of products that businesses are willing to supply is inversely proportional to the number of products that consumers are willing to buy at a specific point in time.

E) Businesses are willing to supply less of a good or service at higher prices because the potential for profits is lower.

Answer: A

Explanation: Prices for goods and services vary according to changes in supply and demand. This concept is the force that drives the distribution of resources (goods and services, labor, and money) in a free-enterprise economy.

Difficulty: 2 Medium

Topic: The Forces of Supply and Demand

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

63) Which market is *most likely* to be a monopoly?

A) agricultural commodities

B) lifestyle gadgets

C) airlines

D) electricity supply

E) sports utility vehicles

Answer: D

Explanation: When there is one business providing a product in a given market, a monopoly exists. Utility companies that supply electricity, natural gas, and water are monopolies.

Difficulty: 2 Medium

Topic: Competition

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

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



A) 35 cents

B) 45 cents

C) 50 cents

D) 55 cents

E) 75 cents

Answer: D

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

Difficulty: 2 Medium

Topic: The Forces of Supply and Demand

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

65) According to Adam Smith, competition

A) mitigates growth.

B) fosters efficiency.

C) prevents low prices.

D) increases demand.

E) increases prices.

Answer: B

Explanation: According to Adam Smith, competition fosters efficiency and low prices by forcing producers to offer the best products at the most reasonable price; those who fail to do so are not able to stay in business. Thus, competition should improve the quality of the goods and services available or reduce prices.

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

66) Jeff is an entrepreneur who decided to start an online bakery. Since all his business will be done online and he can bake in his home kitchen, he is saving building and other brick-and-mortar costs that allow him to pass these savings on to his customers. Reducing prices to customers is an element of

A) productivity.

B) efficiency.

C) competition.

D) equilibrium pricing.

E) resource distribution.

Answer: C

Explanation: This scenario focuses on an element of competition: reducing prices. Competition allows entrepreneurs to discover new technology, ways to lower prices, and methods for providing better distribution of services. Steve's online bakery can offer products at competitive prices by avoiding building and other brick-and-mortar costs.

Difficulty: 3 Hard

Topic: Competition

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

67) When different businesses promote similar products that differ in some characteristics but satisfy the same consumer need, the competitive environment is most likely to be

A) monopolistic competition.

B) pure competition.

C) an oligopoly.

D) a monopoly.

E) socialist.

Answer: A

Explanation: Monopolistic competition exists when there are fewer businesses than in a pure-competition environment and the differences among the goods they sell are small. These products differ slightly in packaging, warranty, name, and other characteristics, but all satisfy the same consumer need.

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

68) \_\_\_\_\_\_\_\_ is an example of a product of monopolistic competition.

A) Cotton

B) Wheat

C) Aspirin

D) Electricity

E) Airline fares

Answer: C

Explanation: Aspirin, soft drinks, and vacuum cleaners are examples of products of monopolistic competition. These products differ slightly in packaging, warranty, name, and other characteristics, but all satisfy the same consumer need.

Difficulty: 2 Medium

Topic: Competition

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

69) Trevor owns a local farm stand. Although he sells fruit and vegetables, like the grocery store chains in the area, he has some power over the price he charges because he can offer consumers features they want. For instance, his fruit and vegetables are organic and locally grown. This is an example of

A) monopolistic competition.

B) pure competition.

C) oligopoly.

D) monopoly.

E) competition.

Answer: A

Explanation: In monopolistic competition, businesses have some power over the price they charge because they can make consumers aware of product differences through advertising. Consumers value some features more than others and are often willing to pay higher prices for a product with the features they want. For instance, a farm stand that sells organic and locally grown fruit and vegetables may be able to charge more than a grocery chain.

Difficulty: 3 Hard

Topic: Competition

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

70) Which of the following exists when there are many small businesses selling one standardized product, such as agricultural commodities like wheat, corn, and cotton?

A) pure competition

B) monopolistic rivalry

C) imperfect competition

D) an oligopoly

E) a monopoly

Answer: A

Explanation: Pure competition exists when there are many small businesses selling one standardized product, such as agricultural commodities like wheat, corn, and cotton.

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

71) The market for corn in Mexico has a large number of sellers and buyers, and there is no difference in the products sold by each seller. As a result, prices are determined by the

A) businesses that sell the corn.

B) consumers that buy the corn.

C) forces of supply and demand.

D) government.

E) agricultural industry.

Answer: C

Explanation: Because no one business sells enough agricultural commodities to influence the price and there are no differences among the commodities, prices are determined solely by forces of supply and demand.

Difficulty: 2 Medium

Topic: Competition

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

72) What competitive environment exists when there is only one business providing a product in a given market?

A) an oligopoly

B) modified competition

C) pure competition

D) monopolistic competition

E) a monopoly

Answer: E

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

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

73) In which market structure do individual businesses have control over their products' price because each business supplies a large portion of the products sold in the marketplace?

A) monopsony

B) monopoly

C) oligopoly

D) government-granted monopoly

E) equilibrium market

Answer: C

Explanation: An oligopoly exists when there are very few businesses selling a product. In an oligopoly, individual businesses have control over their products' price because each business supplies a large portion of the products sold in the marketplace.

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

74) What is true regarding an oligopoly?

A) Prices charged by different firms stay fairly close because a price cut or increase by one company will trigger a similar response from another company.

B) The prices charged by different firms vary widely, since each firm can charge whatever it wants.

C) In oligopolies, it is inexpensive for new firms to enter the marketplace.

D) Prices never change because the government has set the products' price.

E) Since there are very few businesses selling the product, there is no need to ever change the price.

Answer: A

Explanation: An oligopoly exists when there are very few businesses selling a product. In an oligopoly, individual businesses have control over their products' price because each business supplies a large portion of the products sold in the marketplace. Nonetheless, the prices charged by different firms stay fairly close because a price cut or increase by one company will trigger a similar response from another company.

Difficulty: 2 Medium

Topic: Competition

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

75) Following a bad harvest, the prices of agricultural commodities in Brazil have increased dramatically, as have the prices of products manufactured from agricultural commodities. Government intervention has failed to arrest the rising prices. Based on this information, Brazil is experiencing

A) deflation.

B) an economic readjustment.

C) an economic contraction.

D) a depression.

E) inflation.

Answer: E

Explanation: Inflation is a condition characterized by a continuing rise in prices. Inflation can be harmful if individuals' incomes do not increase at the same pace as rising prices, thus reducing their buying power.

Difficulty: 3 Hard

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

76) Economic expansion occurs when

A) fewer goods and services are produced than consumer demand.

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

C) a nation's standard of living drops dramatically.

D) employment levels decline over time.

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

Answer: B

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

Difficulty: 1 Easy

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

77) Ramona is living on a fixed income since her retirement. She is worried that the economy is expanding too rapidly, which could result in

A) inflation.

B) a depression.

C) a recession.

D) an economic contraction.

E) deflation.

Answer: A

Explanation: Rapid expansions of the economy may result in inflation, a continuing rise in prices. Inflation can be harmful if individuals' incomes do not increase at the same pace as rising prices, reducing their buying power.

Difficulty: 2 Medium

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

78) What is true of economic expansion?

A) There is a decline in production, employment, and income.

B) The standard of living rises because more people are employed and have money to spend.

C) There is a decline in spending.

D) Consumer spending is low and business output is sharply reduced.

E) The prices stagnate during this period.

Answer: B

Explanation: Economic expansion occurs when an economy is growing and people are spending more money. Their purchases stimulate the production of goods and services, which in turn stimulates employment. The standard of living rises because more people are employed and have money to spend.

Difficulty: 2 Medium

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

79) What is a characteristic of economic depression?

A) Unemployment levels are low or almost absent.

B) Consumer spending is high.

C) Individuals' incomes increase at the same pace as rising prices.

D) Buying power of consumers is quadrupled.

E) Business output is sharply reduced.

Answer: E

Explanation: A severe recession may turn into a depression in which unemployment is very high, consumer spending is low, and business output is sharply reduced, such as what occurred in the United States in the early 1930s.

Difficulty: 2 Medium

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

80) What is associated with a decline in spending?

A) inflation

B) economic contraction

C) economic expansion

D) employment boom

E) job expansion

Answer: B

Explanation: Economic contraction occurs when spending declines. Businesses cut back on production and lay off workers, and the economy as a whole slows down.

Difficulty: 2 Medium

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

81) Contractions of the economy lead to

A) inflation.

B) recession.

C) rising levels of employment.

D) an increase in production.

E) an increase in income.

Answer: B

Explanation: Contractions of the economy lead to recession, the decline in production, employment, and income.

Difficulty: 2 Medium

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

82) Increased unemployment can reduce consumer demand for goods and services, leading to

A) economic expansion.

B) inflation.

C) deflation.

D) a budget surplus.

E) a recovery.

Answer: C

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

Difficulty: 2 Medium

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

83) A country experiences a rapid expansion of its economy, which resulted in prices doubling every 12 hours. This is an example of

A) recession.

B) hyperinflation.

C) deflation.

D) depression.

E) equilibrium.

Answer: B

Explanation: When prices double quickly, this is an example of hyperinflation. Inflation can be harmful if individuals' incomes do not increase at the same pace as rising prices.

Difficulty: 2 Medium

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-05 Describe the role of supply, demand, and competition in a free-enterprise system.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

84) Which statement is true about GDP as a measure of a country's economic health?

A) It does not include the services produced in a country.

B) It measures only those goods and services made within a country.

C) It includes profits from companies' overseas operations.

D) It does not include profits earned by foreign companies within the country being measured.

E) It essentially takes into account the concept of GDP in relation to population.

Answer: B

Explanation: GDP measures only those goods and services made within a country and therefore does not include profits from companies' overseas operations.

Difficulty: 2 Medium

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-06 Specify why and how the health of the economy is measured.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

85) A budget deficit occurs when a nation

A) reduces its expenditures.

B) receives excess taxes.

C) has no national debts.

D) spends more than it takes in from taxes.

E) balances taxes and expenditures.

Answer: D

Explanation: An important indicator of a nation's economic health is the relationship between its spending and income (from taxes). When a nation spends more than it takes in from taxes, it has a budget deficit.

Difficulty: 2 Medium

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-06 Specify why and how the health of the economy is measured.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

86) If a country balances the money it spends for social, defense, and other programs with the amount of money it takes in from taxes, this country

A) will not have a budget deficit.

B) will increase its national debt.

C) will have a budget surplus.

D) will have a trade imbalance.

E) will slip into a recession.

Answer: A

Explanation: If a country balances the money it spends for social, defense, and other programs with the amount of money it takes in from taxes, it is eliminating a budget deficit.

Difficulty: 2 Medium

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-06 Specify why and how the health of the economy is measured.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

87) \_\_\_\_\_\_\_\_ measures changes in the prices of goods and services purchased for consumption by typical urban households.

A) GDP

B) Per capita income

C) Worker productivity

D) Trade balance

E) Consumer price index

Answer: E

Explanation: Consumer price index measures changes in prices of goods and services purchased for consumption by typical urban households.

Difficulty: 1 Easy

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-06 Specify why and how the health of the economy is measured.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

88) \_\_\_\_\_\_\_\_ indicates the income level of "average" Americans. It is useful in determining how much "average" consumers spend and how much money Americans are earning.

A) Per capita income

B) GDP

C) Budget deficit

D) Consumer price index

E) Worker productivity

Answer: A

Explanation: Per capita income indicates the income level of "average" Americans. It is useful in determining how much "average" consumers spend and how much money Americans are earning.

Difficulty: 1 Easy

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-06 Specify why and how the health of the economy is measured.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

89) All of these statements are true of the U.S. national debt EXCEPT

A) massive government stimulus spending during the most recent recession increased the national debt.

B) it is difficult to increase taxes and reduce the deficit because Americans don't want their taxes increased and Congress has difficulty agreeing on appropriate tax rates.

C) the national debt in the United States continues to grow at record levels.

D) the recently enacted tax cuts in the United States are projected to decrease the national debt significantly over the next 10 years.

E) to reduce the debt, the government has to increase its revenues or reduce spending on social, defense, and legal programs.

Answer: D

Explanation: Massive government stimulus spending during the most recent recession increased the national debt. Because many Americans don't want their taxes increased and Congress has difficulty agreeing on appropriate tax rates, it is difficult to increase taxes and reduce the deficit. As a result, the national debt continues to grow. To reduce the debt to a manageable level, the government either has to increase its revenues or reduce spending on social, defense, and legal programs. The recently enacted tax cuts in the United States are projected to *increase* the national debt, not decrease it.

Difficulty: 2 Medium

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-06 Specify why and how the health of the economy is measured.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

90) In Norway, most citizens are able to afford basic necessities and some degree of comfort. This means Norway has a(n)

A) high standard of living.

B) low standard of living.

C) high cost of living.

D) low GDP per capita.

E) average standard of living.

Answer: A

Explanation: The United States, Germany, Australia, and Norway all have a high standard of living, meaning that most of their citizens are able to afford basic necessities and some degree of comfort.

Difficulty: 2 Medium

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

91) What is true of an open economy, like that of the United States?

A) Open economies tend to grow very slowly.

B) Open economies do not engage in international trade.

C) Open economies tend to lack efficiency and productivity.

D) Open economies are major players in international trade.

E) Open economies lack access to technology.

Answer: D

Explanation: The American economy is an open economy, or an economy in which economic activities occur between the country and the international community. Open economies are major players in international trade and tend to grow faster than economies that do not engage in international trade.

Difficulty: 2 Medium

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

92) What would hinder business activity as it relates to an open economy?

A) too much reliance on technology

B) participating in international trade

C) a focus on efficiency and productivity

D) a focus on innovation

E) too much regulation of business activities

Answer: E

Explanation: In today's global environment, the ability to harness technology is critical toward increased innovation. In contrast, research indicates a negative relationship between regulatory actions and innovation in firms, suggesting that too much regulation hinders business activities and their contribution to the American economy.

Difficulty: 2 Medium

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

93) What are the two *primary* factors economists consider when evaluating the American economy?

A) growth in GDP and jobs

B) standard of living and consumer confidence

C) government regulation and profitability

D) national debt and budget deficits

E) growth in the tax base and unemployment

Answer: A

Explanation: When looking at the American economy, growth in GDP and jobs are the two primary factors economists consider. A positive relationship exists between a country's employment rate and economic growth. A nation's output depends on the amount of labor used in the production process, so there is also a positive correlation between output and employment. In general, as the labor force and productivity increase, so does GDP.

Difficulty: 2 Medium

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

94) Before the Industrial Revolution, the economy of North America under the *colonists* was characterized by

A) farming, and the production of agricultural goods.

B) the export of manufactured goods to England.

C) a scarcity of natural resources.

D) dependence on England for everyday goods.

E) a hunter/gatherer society.

Answer: A

Explanation: Prior to the colonization of North America, Native Americans lived as hunter/gatherers. However, the colonists operated primarily as an agricultural economy. People were self-sufficient and produced everything they needed at home.

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

95) What change occurred in the United States during the Industrial Revolution?

A) Farm production decreased as industrial production increased.

B) As work became more localized, productivity decreased.

C) Trade within the country decreased as regions became self-sufficient.

D) Farmers began to move to cities to find jobs in factories.

E) Fewer goods were available, and prices of goods increased.

Answer: D

Explanation: During the Industrial Revolution, John Deere's farm equipment increased farm production and reduced the number of farmers required to feed the young nation. Farmers began to move to cities to find jobs in factories and a higher standard of living.

Difficulty: 2 Medium

Topic: The Evolution of Business

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

96) Who set up the first American textile factory after he memorized the plans for an English factory and emigrated to the United States?

A) Eli Whitney

B) Francis Cabot Lowell

C) Henry Ford

D) Nick Woodman

E) Samuel Slater

Answer: E

Explanation: Samuel Slater set up the first American textile factory after he memorized the plans for an English factory and emigrated to the United States.

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Remember

AACSB: Technology

Accessibility: Keyboard Navigation

97) In the history of the American economy, the period following the Industrial Revolution was known for an increasing emphasis on

A) services.

B) artisanship.

C) manufacturing.

D) agriculture.

E) information.

Answer: C

Explanation: Industrialization brought increased prosperity, and the United States gradually became a manufacturing economy.

Difficulty: 2 Medium

Topic: The Evolution of Business

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Remember

AACSB: Technology

Accessibility: Keyboard Navigation

98) When the assembly line was applied to more industries, America evolved into a(n)

A) marketing economy.

B) agrarian economy.

C) indigenous manufacturing economy.

D) production economy.

E) service economy.

Answer: A

Explanation: The assembly line was applied to more industries, increasing the variety of goods available to the consumer. Businesses became more concerned with the needs of the consumer and entered the marketing economy*.*

Difficulty: 2 Medium

Topic: The Evolution of Business

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Remember

AACSB: Technology

Accessibility: Keyboard Navigation

99) What is a characteristic of the marketing economy phase of the American economy?

A) People were self-sufficient and produced everything they needed at home, including food, clothing, and furniture.

B) People found natural resources such as coal and iron ore and used them to produce goods such as horseshoes.

C) Farm families who produced surplus goods sold or traded them for things they could not produce themselves.

D) Expensive goods such as cars and appliances could be purchased on a time-payment plan.

E) Factories began to spring up along the railways to manufacture farm equipment and a variety of other goods to be shipped by rail.

Answer: D

Explanation: During the marketing economy phase, the assembly line was applied to more industries, increasing the variety of goods available to the consumer. Businesses became more concerned with the needs of the consumer and entered the marketing economy. Expensive goods such as cars and appliances could be purchased on a time-payment plan.

Difficulty: 2 Medium

Topic: The Evolution of Business

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Understand

AACSB: Technology

Accessibility: Keyboard Navigation

100) All of the following contributed to the evolution of the service economy in America EXCEPT

A) an increase in the standard of living.

B) the desire of women to be stay-at-home-moms.

C) more women entering the workforce.

D) major shifts in the population.

E) an increase in disposable income.

Answer: B

Explanation: After World War II, with the increased standard of living, Americans had more money and more time. They began to pay others to perform services that made their lives easier. Beginning in the 1960s, more and more women entered the workforce and the United States began experiencing major shifts in the population. These trends have gradually changed the United States to a service economy—one devoted to the production of services that make life easier for busy consumers.

Difficulty: 2 Medium

Topic: The Evolution of Business

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

101) As the service economy in America continues to rapidly grow, advances in technology are contributing to new service products based on technology and digital media that provide smart phones, social networking, and e-commerce. This suggests that the country may be moving toward being a \_\_\_\_\_\_\_\_ economy.

A) socialized

B) laissez-faire

C) digital

D) marketing

E) manufacturing

Answer: C

Explanation: The trend to use advanced technology has contributed to new service products based on technology and digital media that provide smartphones, social networking, and virtual worlds. This, in turn, has led to the growth of e-commerce and suggests that the country may be moving toward being a digital economy.

Difficulty: 2 Medium

Topic: The Evolution of Business

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

102) An entrepreneur has been primarily associated with the willingness to

A) change employers frequently.

B) work under authority.

C) be conservative.

D) possess a government job.

E) take risks.

Answer: E

Explanation: An entrepreneur is an individual who risks his or her wealth, time, and effort to develop for profit an innovative product or way of doing something.

Difficulty: 2 Medium

Topic: Define Entrepreneurship

Learning Objective: 01-08 Explain the role of the entrepreneur in the economy.

Bloom's: Remember

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

103) All of the following are true of entrepreneurs EXCEPT

A) in the past, entrepreneurs were inventors who brought all the factors of production together to produce a new product.

B) many of the companies started by early entrepreneurs have failed to stay in operation.

C) a free-enterprise system provides the conditions necessary for entrepreneurs to succeed.

D) many of the companies started by early entrepreneurs still operate today.

E) entrepreneurs constantly change American business practices with new technology and innovative management techniques.

Answer: B

Explanation: The free-enterprise system provides the conditions necessary for entrepreneurs to succeed. In the past, entrepreneurs were often inventors who brought all factors of production together to produce a new product. Other entrepreneurs invested in the country's growth. Although these entrepreneurs were born in another century, their legacy to the American economy lives on in the companies they started, many of which still operate today. Entrepreneurs are constantly changing American business practices with new technology and innovative management techniques.

Difficulty: 2 Medium

Topic: Define Entrepreneurship

Learning Objective: 01-08 Explain the role of the entrepreneur in the economy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

104) Which of the following emerged in the United States as a result of industrialization?

A) government ownership of business

B) price regulation by planning commissions

C) low standard of living

D) increase in the number of farmers

E) increase in the variety of goods available

Answer: E

Explanation: Industrialization brought increased prosperity, and the United States gradually became a manufacturing economy—one devoted to manufacturing goods and providing services rather than producing agricultural products. The assembly line was applied to more industries, increasing the variety of goods available to the consumer.

Difficulty: 2 Medium

Topic: The Evolution of Business

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

105) What does the American government do to counteract economic contraction?

A) It reduces interest rates.

B) It decreases its own spending for goods and services.

C) It raises the reserve rate of banks.

D) It decreases the money supply.

E) It sells securities through the Federal Reserve Board.

Answer: A

Explanation: When the economy is contracting and unemployment is rising, the federal government through the Federal Reserve Board tries to spur growth so that consumers will spend more money and businesses will hire more employees. To accomplish this, it may reduce interest rates or increase its own spending for goods and services.

Difficulty: 2 Medium

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

106) What is useful in fighting inflation?

A) raising interest rates

B) lowering the reserve rate of funds banks must hold in reserve

C) increasing the money supply

D) decreasing the interest rate on loans to member banks

E) buying security

Answer: A

Explanation: When the economy expands so fast that inflation results, the government may intervene to reduce inflation by slowing down economic growth. This can be accomplished by raising interest rates to discourage spending by businesses and consumers.

Difficulty: 2 Medium

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

107) What is true of ethics and social responsibility in business?

A) Ethical conduct and corporate social responsibility are linked to increased profits.

B) Businesses do not need to consider social values in the contemporary scenario.

C) Investors and retired employees remain unaffected in case of scandals.

D) Businesses' reputations depend solely on their profits.

E) Business misconduct is likely to be widely excused if it enhances firms' profits.

Answer: A

Explanation: Research has shown that ethical behavior can not only enhance a company's reputation but can also drive profits.

Difficulty: 2 Medium

Topic: The Ethical Concerns that Affect Business

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

108) Several employees in a well-known corporation, Truck Corporation, were arrested for intentionally selling defective truck parts to their customers. Scandals like this

A) do not affect public confidence in corporations.

B) undermine public confidence in corporations.

C) cause society to boycott corporations.

D) have a positive effect on retired employees.

E) resolve the debate about ethics in business.

Answer: B

Explanation: When scandals occur in well-known corporations, it undermines public confidence in corporations and sparks a new debate about ethics in business. Misconduct by individuals in a firm has an adverse effect on current and retired employees, investors, and others associated with the firm.

Difficulty: 3 Hard

Topic: The Ethical Concerns that Affect Business

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Apply

AACSB: Ethics

Accessibility: Keyboard Navigation

109) All of the following are true of workplace diversity EXCEPT it

A) increases employee satisfaction.

B) decreases the financial performance of companies.

C) improves decision making.

D) is highly beneficial to the financial performance of companies.

E) must be balanced to support and protect various stakeholders.

Answer: B

Explanation: Diversity in the workforce is highly beneficial to the financial performance of companies. It creates increased employee satisfaction and improved decision making. When actions are heavily criticized, a balance is usually required to support and protect various stakeholders.

Difficulty: 2 Medium

Topic: Cultural Diversity in the Workplace

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

110) What is the primary goal of all businesses? Does a nonprofit organization fit within this goal?

Answer: The primary goal of all businesses is to earn a profit—the difference between what it costs to make and sell a product and what a customer pays for it. Nonprofit organizations differ from businesses since they do not have the fundamental purpose of earning profits. Nonprofit organizations, such as the Red Cross, Special Olympics, and other charities and social causes, may provide goods or services and engage in fund-raising, but it is not with the intent of earning profits. Businesses, on the other hand, try to earn a profit by providing products that satisfy people's needs.

Difficulty: 2 Medium

Topic: Definition of Business

Learning Objective: 01-01 Define basic concepts such as business, product, profit, and economics.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

111) Name at least 3 benefits of studying business.

Answer: Studying business can help you develop skills and acquire knowledge to prepare for your future career, regardless of whether you plan to work for a multinational Fortune 500 firm, start your own business, work for a government agency, or manage or volunteer at a nonprofit organization. The field of business offers a variety of interesting and challenging career opportunities throughout the world, such as marketing, human resources management, information technology, finance, production and operations, wholesaling and retailing, and many more. Studying business can also help you better understand the many business activities that are necessary to provide satisfying goods and services—and that these activities carry a price tag.

Difficulty: 2 Medium

Topic: Definition of Business

Learning Objective: 01-03 Explain why studying business is important.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

112) Differentiate between communist, socialist, and capitalist economic systems.

Answer: Karl Marx (1818–1883) first described communism as a society in which the people, without regard to class, own all the nation's resources. In his ideal political-economic system, everyone contributes according to ability and receives benefits according to need. In a communist economy, the people (through the government) own and operate all businesses and factors of production. Central government planning determines what goods and services satisfy citizens' needs, how the goods and services are produced, and how they are distributed. No true communist economy, however, exists today that satisfies Marx's ideal. Socialism is an economic system in which the government owns and operates basic industries—postal service, utilities, transportation, health care, and banking, and some manufacturing—but individuals own most businesses. Central planning determines what basic goods and services are produced, how they are produced, and how they are distributed, while individuals and small businesses provide other goods and services based on consumer demand and the availability of resources. Citizens are dependent on the government for many goods and services. Capitalism, or free enterprise, is an economic system in which individuals own and operate the majority of businesses that provide goods and services. Competition, supply, and demand determine which goods and services are produced, how they are produced, and how they are distributed.

Difficulty: 2 Medium

Topic: Economics and the Types of Economic Systems

Learning Objective: 01-04 Compare the four types of economic systems.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

113) Explain the relationship between supply and demand in a free-enterprise system.

Answer: In the United States and in other free-enterprise systems, the distribution of resources and products is determined by supply and demand. Demand is the number of goods and services that consumers are willing to buy at different prices at a specific time, while supply is the number of products that businesses are willing to sell at different prices at a specific time. Consumers are usually willing to buy more of an item as its price falls because they want to save money. A business on the other hand, is willing to supply more of a good or service at higher prices since its potential for profit is higher. The relationship between supply and demand is constantly changing in response to changes in economic conditions, availability of resources, and degree of competition.

Difficulty: 2 Medium

Topic: Key Economic Indicators and How they Affect Business

Learning Objective: 01-06 Specify why and how the health of the economy is measured.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

114) Describe the pre-industrial economic phase of the United States.

Answer: Before the colonization of North America, Native Americans lived as hunter/gatherers and farmers, with some trade among tribes. The colonists who came later operated primarily as an agricultural economy. People were self-sufficient and produced everything they needed at home, including food, clothing, and furniture. Abundant natural resources and a moderate climate nourished industries such as farming, fishing, shipping, and fur trading. A few manufactured goods and money for the colonies' burgeoning industries came from England and other countries.

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

115) Define business ethics. Describe the role of ethics and social responsibility in business.

Answer: Business ethics refers to the standards and principles used by society to define appropriate and inappropriate conduct in the workplace. In many cases, these standards have been codified as laws prohibiting actions deemed unacceptable. Society is increasingly demanding that businesspeople behave socially responsibly toward their stakeholders. Research has shown that ethical behavior can not only enhance a company's reputation but can also drive profits. There is growing recognition that the long-term value of conducting business in an ethical and socially responsible manner that considers the interests of all stakeholders creates superior financial performance.

Difficulty: 2 Medium

Topic: The Ethical Concerns that Affect Business

Learning Objective: 01-07 Outline the evolution of the American economy.

Bloom's: Understand

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation