

## Chapter 3—Economic Challenges Facing Global and Domestic Business

### MATCHING

*Complete the following using the terms listed.*

- a. Consumer Price Index
- b. inflation
- c. gross domestic product
- d. fiscal policy
- e. monetary policy
- f. equilibrium price
- g. budget deficit
- h. pure competition
- i. supply
- j. demand
- k. productivity
- l. recession
- m. planned economy
- n. oligopoly
- o. monopoly

1. \_\_\_\_\_ measures the monthly average change in prices of goods and services.
2. \_\_\_\_\_ results in rising prices caused by a combination of excess consumer demand and increases in the costs of raw materials.
3. Attempting to bring about changes in economic activity through changes in the size of the nation's money supply is called \_\_\_\_\_.
4. \_\_\_\_\_ is the amount of goods and services available at various prices.
5. The market price where the supply and demand curves meet is the \_\_\_\_\_.
6. If the government spends more than it collects in taxes, then a(n) \_\_\_\_\_ occurs.
7. The use of government tax and spending policies to bring about desired changes in the economy is called \_\_\_\_\_.
8. \_\_\_\_\_ is the sum of all goods and services produced within a country's boundaries.
9. \_\_\_\_\_ refers to the willingness and ability of buyers to purchase goods and services at various prices.
10. An economic system where government controls determine such things as business ownership and resource allocation is called a(n) \_\_\_\_\_.
11. During a(n) \_\_\_\_\_, consumers frequently postpone major purchases and shift buying patterns toward basic, functional products carrying low prices.
12. \_\_\_\_\_ is a market structure characterized by a large number of buyers and sellers exchanging relatively homogenous products, with no single participant having a significant influence on price.
13. A(n) \_\_\_\_\_ is characterized by relatively few sellers and barriers to entry due to high start-up costs.
14. In a(n) \_\_\_\_\_ a single seller dominates trade in a product for which buyers can find no close substitute.
15. \_\_\_\_\_ is the relationship between the goods and services produced in a nation each year and the inputs needed to produce them.

1. ANS: A                      DIF: 2  
NAT: AACSB Analytic
2. ANS: B                      DIF: 2  
NAT: AACSB Analytic
3. ANS: E                      DIF: 2  
NAT: AACSB Analytic
4. ANS: I                      DIF: 2

- REF: Evaluating Economic Performance  
MSC: KN
- REF: Evaluating Economic Performance  
MSC: KN
- REF: Managing the Economy's Performance  
MSC: KN
- REF: Microeconomics: The Forces of Supply and

	Demand				
	NAT: AACSB Analytic			MSC: KN	
5.	ANS: F	DIF: 2		REF: Microeconomics: The Forces of Supply and	
	Demand				
	NAT: AACSB Analytic			MSC: KN	
6.	ANS: G	DIF: 2		REF: Managing the Economy's Performance	
	NAT: AACSB Analytic			MSC: KN	
7.	ANS: D	DIF: 2		REF: Managing the Economy's Performance	
	NAT: AACSB Analytic			MSC: KN	
8.	ANS: C	DIF: 2		REF: Evaluating Economic Performance	
	NAT: AACSB Analytic			MSC: KN	
9.	ANS: J	DIF: 2		REF: Microeconomics: The Forces of Supply and	
	Demand				
	NAT: AACSB Analytic			MSC: KN	
10.	ANS: M	DIF: 2		REF: Macroeconomics: Issues for the Entire Economy	
	NAT: AACSB Analytic			MSC: KN	
11.	ANS: L	DIF: 2		REF: Evaluating Economic Performance	
	NAT: AACSB Analytic			MSC: KN	
12.	ANS: H	DIF: 2		REF: Macroeconomics: Issues for the Entire Economy	
	NAT: AACSB Analytic			MSC: KN	
13.	ANS: N	DIF: 2		REF: Macroeconomics: Issues for the Entire Economy	
	NAT: AACSB Analytic			MSC: KN	
14.	ANS: O	DIF: 2		REF: Macroeconomics: Issues for the Entire Economy	
	NAT: AACSB Analytic			MSC: KN	
15.	ANS: K	DIF: 2		REF: Evaluating Economic Performance	
	NAT: AACSB Analytic			MSC: KN	

## ESSAY

1. What is economics? Why is understanding economics important when studying business?

ANS:

Economics is a social science that analyzes the choices made by individuals and organizations in the allocation of scarce resources. Individuals make economic decisions every day when they decide what to buy, what services to use, and so forth. Businesses also make economic decisions when they choose how to use human and natural resources, invest in machinery and buildings, and form partnerships with other firms. The choices made by individuals and businesses are affected by economic conditions, and, in turn, their decisions affect economic conditions.

DIF: 3      REF: Chapter Overview      NAT: AACSB Reflective Thinking  
MSC: AP

2. Differentiate between macroeconomics and microeconomics. What economic activities might you study under each?

ANS:

Macroeconomics deals with the economy as a whole, while microeconomics is concerned with the economic activities of individual consumers, families, and businesses. Macroeconomics addresses such issues as how an economy uses its resources, as well as government policies that affect people's standards of living. Microeconomics addresses such issues as how businesses make economic decisions.

DIF: 3  
MSC: AP

REF: Chapter Overview NAT:

AACSB Reflective Thinking

3. Distinguish between the demand curve and the supply curve.

ANS:

The demand curve is a graph of the amount of a product that buyers will purchase at various prices. Demand curves typically slope downward. The supply curve shows the relationship between various prices and the quantities that sellers will offer for sale, regardless of demand.

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT:

AACSB Analytic

MSC: KN

4. List the factors that should cause a demand curve to shift to the right.

ANS:

The factors are an increase in customer preferences, increase in the number of buyers, increase in buyers' incomes, increase in the prices of substitute goods, decrease in the price of complementary goods, and more optimistic expectations concerning the future.

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT:

AACSB Analytic

MSC: KN

5. List the factors that should cause a supply curve to shift to the left.

ANS:

The factors are an increase in the cost of inputs, an increase in the cost of technologies, an increase in taxes, and a decrease in the number of suppliers.

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT:

AACSB Analytic

MSC: KN

6. Explain how the interaction of supply and demand will correct a surplus or shortage.

ANS:

If there is a surplus, the price is too high. When price starts to fall, more units will be purchased and fewer units will be produced. This will eliminate the surplus. If the price is too low, a shortage will exist causing prices to rise. The increase in price will cause fewer sales and more units to be produced, eliminating the surplus.

DIF: 3

REF: Microeconomics: The Forces of Demand and Supply

NAT:

AACSB Reflective Thinking

MSC: AP

7. List the four Factors of Production and explain how these factors influence the overall supply of goods and services.

ANS:

The four Factors of Production are natural resources, human resources, capital, and entrepreneurship. A change in the cost or availability of any of these inputs can shift the entire supply curve, either increasing or decreasing the amount available at every price.

DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply                      NAT:  
AACSB Reflective Thinking  
MSC: AP

8. Describe how worker incentives vary in each of the four economic systems.

ANS:

In a capitalist system, considerable incentives exist to motivate people to perform at their highest levels. Most communist systems traditionally had little in the way of worker incentives, though some are beginning to emerge. In a socialist economy, incentives are limited in state enterprises but do exist in privately owned firms. In a mixed economy, capitalist-style incentives operate in the private sector. Worker incentives are more limited in the public sector.

DIF: 3                      REF: Macroeconomics: Issues for the Entire Economy                      NAT: AACSB  
Reflective Thinking  
MSC: AP

9. Define a monopoly and an oligopoly in the private enterprise system.

ANS:

A monopoly is a market structure with only a single seller. A pure monopoly is a firm that has such unique characteristics that no other firm can enter the market successfully. Unless the condition is temporary (caused by a patent) or unless it is regulated, it is illegal in the U.S. An oligopoly is a market structure in which relatively few sellers compete. High start-up costs create barriers to keep out new competitors.

DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy                      NAT: AACSB  
Reflective Thinking  
MSC: AP

10. What are the major differences between socialism and a mixed economic system?

ANS:

In a socialist economy, the government owns industries that are considered to be of vital importance, such as energy firms, major manufacturing firms, and transportation systems. Socialist countries allow limited private ownership of small businesses and industries that are not considered to be as vital. In a mixed economy, a strong private sector exists. It is much larger than the private sector in a socialist economy. In a mixed economy, some public enterprises operate as well. The rights to profits are stronger in a mixed economy and even public enterprises are expected to at least break even. Worker incentives are also stronger in a mixed economy than they are in a socialist economy.

DIF: 3                      REF: Macroeconomics: Issues for the Entire Economy                      NAT: AACSB  
Reflective Thinking  
MSC: AP

11. What is a business cycle? What are the four stages of the business cycle?

ANS:

A business cycle refers to the cyclical expansion and contraction in a nation's economy. The four stages are: prosperity, recession, depression, and recovery. Most economists believe that the government has sufficient tools to prevent a recession from becoming a depression. Therefore, a recession is typically followed by a recovery.

DIF: 2  
MSC: KN

REF: Evaluating Economic Performance NAT: AACSB Analytic

12. Distinguish between demand-pull inflation and cost-push inflation. Give an example of each.

ANS:

Demand-pull inflation is caused by an increase in the demand for a good or service. An example might be higher housing prices as a result of higher incomes. Cost-push inflation is caused by an increase in the cost of producing a good or service. An example might be an increase in airline ticket prices caused by higher jet fuel prices.

DIF: 2  
MSC: AP

REF: Evaluating Economic Performance NAT: AACSB Reflective Thinking

13. Define the Consumer Price Index, and explain how its measured by the U.S. government.

ANS:

The Consumer Price Index measures the monthly average change in prices of goods and services. The index is based on prices of a market basket, which is a compilation of the goods and services most commonly purchased by urban consumers.

DIF: 2  
MSC: KN

REF: Evaluating Economic Performance NAT: AACSB Analytic

14. Describe the four categories of unemployment.

ANS:

The four categories of unemployment are:

- a. frictional workers who are temporarily out of work but are looking for a job.
- b. seasonal workers laid off from a seasonal job.
- c. cyclical workers who are laid off due to an economic contraction (recession).
- d. structural workers who have been out of work for a long period of time with little hope of finding a similar job.

DIF: 3  
MSC: KN

REF: Evaluating Economic Performance NAT: AACSB Analytic

15. Describe monetary policy. Who in the United States is in control of it and how does it work?

ANS:

Monetary policy in the U.S. is controlled by the Federal Reserve System. It involves reducing the money supply that causes higher interest rates and slows down the economy, or increasing the money supply to lower interest rates and stimulate economic growth.

DIF: 2  
Thinking  
MSC: AP

REF: Managing the Economy's Performance NAT: AACSB Reflective

16. What is fiscal policy? How can fiscal policy affect economic conditions?

ANS:

Fiscal policy deals with taxing and spending decisions made by the government. Generally, increases in taxes or decreases in spending will tend to reduce inflation and slow economic growth. Increases in spending or decreases in taxes often have the opposite effect.

DIF: 2                      REF: Managing the Economy's Performance                      NAT: AACSB Reflective Thinking  
MSC: AP

17. List five challenges to maintain global competitiveness.

ANS:  
Threat of international terrorism  
Shift to a global information economy  
Aging of the world's population  
Growth of China and India  
Enhancing competitiveness of every country's workforce

DIF: 2                      REF: Global Economic Challenges of the 21<sup>st</sup>-Century                      NAT: AACSB  
Analytic  
MSC: KN

## **MULTIPLE CHOICE**

1. Which of the following fields is concerned with understanding the choices people make in using scarce resources?
- Statistics
  - Psychology
  - Accounting
  - Economics

ANS: D                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

2. \_\_\_\_\_ is the study of the economic choices of individual consumers, families, or businesses.
- Macroeconomics
  - Microeconomics
  - Entrepreneurship
  - Consumer behavior

ANS: B                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

3. The study of macroeconomics is \_\_\_\_\_.
- not related to microeconomics
  - primarily concerned with individual businesses and decisions
  - concerned with studying the overall economy
  - not related to government decisions concerning spending and taxes

ANS: C                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

4. Williams & Co. management is trying to decide the appropriate prices for various products sold by the firm. This is a focus of \_\_\_\_\_.  
a. Microeconomics  
b. Macroeconomics  
c. fiscal policy  
d. monetary policy

ANS: A                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking                      MSC: AP

5. Individual and business decisions are \_\_\_\_\_ by economic conditions and, in turn, economic conditions are \_\_\_\_\_ by their decisions.  
a. affected; not affected  
b. affected; affected  
c. not affected; not affected  
d. not affected; affected

ANS: B                      DIF: 3                      REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking                      MSC: AP

6. The U.S. Congress is considering a bill designed to cut taxes. This is a focus of \_\_\_\_\_.  
a. Macroeconomics  
b. monetary policy  
c. Microeconomics  
d. consumer behavior

ANS: A                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking                      MSC: AP

7. Hailey's research firm was hired by a discount superstore to provide a detailed evaluation regarding consumer preferences. Hailey's analysis involves the study of \_\_\_\_\_.  
a. Economics  
b. private enterprise system  
c. Microeconomics  
d. Macroeconomics

ANS: C                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking                      MSC: AP

8. The willingness and ability of sellers to provide goods and services for sale in a market is referred to as \_\_\_\_\_.  
a. Supply  
b. the equilibrium price  
c. Microeconomics  
d. Demand

ANS: A                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Analytic                      MSC: KN

9. \_\_\_\_\_ refers to the willingness and ability of buyers to purchase goods and services.

- a. Consumer behavior
- b. Customer preference
- c. Supply
- d. Demand

ANS: D

DIF: 1

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Analytic

MSC: KN

10. If the number of buyers increases, the demand curve will shift to the \_\_\_\_\_ and the price will \_\_\_\_\_.

- a. right; fall
- b. left; fall
- c. right; rise
- d. left; rise

ANS: C

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

11. If buyers' incomes decrease, the demand curve will shift to the \_\_\_\_\_ and the price will \_\_\_\_\_.

- a. right; fall
- b. left; fall
- c. right; rise
- d. left; rise

ANS: B

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

12. If the prices of substitute goods increase, the demand curve will shift to the \_\_\_\_\_ and the price will \_\_\_\_\_.

- a. right; fall
- b. left; fall
- c. right; rise
- d. left; rise

ANS: C

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

13. A demand curve will shift to the left if the \_\_\_\_\_.

- a. number of buyers increases
- b. buyers' incomes decrease
- c. future expectations become more optimistic
- d. prices of substitute goods increase

ANS: B

DIF: 3

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

14. The curve that shows the relationship between different prices and the quantity requested at each price is the \_\_\_\_\_ curve.

- a. Equilibrium
- b. Supply



- c. Buying
- d. Demand

ANS: D

DIF: 1

REF: Microeconomics: The Forces of Demand and

Supply

NAT: AACSB Analytic

MSC: KN

15. Which of the following statements about demand curves is true?

- a. When the price rises, demand increases.
- b. When the price falls, demand decreases.
- c. When the price falls, demand increases.
- d. When the price falls, supply increases.

ANS: C

DIF: 2

REF: Microeconomics: The Forces of Demand and

Supply

NAT: AACSB Analytic

MSC: KN

16. A demand curve is the schedule that shows the relationship between the price of a product and \_\_\_\_\_.

- a. overhead costs
- b. the costs of marketing the product
- c. the quantity of that product that buyers demand at that price
- d. the quantity supplied at each price

ANS: C

DIF: 1

REF: Microeconomics: The Forces of Demand and

Supply

NAT: AACSB Analytic

MSC: KN

17. Which of the following factors will NOT result in a shift in the supply curve?

- a. Change in the number of suppliers
- b. Change in the price of substitute goods
- c. Cost savings resulting from new technology
- d. Change in the costs of labor

ANS: B

DIF: 2

REF: Microeconomics: The Forces of Demand and

Supply

NAT: AACSB Analytic

MSC: KN

18. All of the following can shift the demand curve to either the right or left EXCEPT \_\_\_\_\_.

- a. change in the cost of inputs
- b. change in the number of buyers
- c. change in the income of buyers
- d. buyers' attitudes about the future

ANS: A

DIF: 3

REF: Microeconomics: The Forces of Demand and

Supply

NAT: AACSB Analytic

MSC: KN

19. An increase in consumers' incomes causes the \_\_\_\_\_.

- a. supply curve to shift to the right
- b. demand curve to shift to the right
- c. supply curve to shift to the left
- d. demand curve to shift to the left

ANS: B

DIF: 3

REF: Microeconomics: The Forces of Demand and

Supply

NAT: AACSB Reflective Thinking

MSC: AP

20. A supply curve is a(n) \_\_\_\_\_.  
a. upward sloping curve  
b. downward sloping curve  
c. vertical line  
d. horizontal line

ANS: A

DIF: 1

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Analytic

MSC: KN

21. According to a supply curve, \_\_\_\_\_.  
a. as prices rise, quantity of a product supplied falls  
b. as prices fall, quantity of a product supplied increases  
c. as prices rise, consumers will buy in larger quantities  
d. as prices rise, the quantity of a product that is supplied also rises

ANS: D

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Analytic

MSC: KN

22. If the cost of producing a good or service declines, the supply curve will shift to the \_\_\_\_\_ and the price will \_\_\_\_\_.  
a. right; fall  
b. right; rise  
c. left; fall  
d. left; rise

ANS: A

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

23. As the number of suppliers of a product declines, the supply curve shifts to the \_\_\_\_\_ and the price will \_\_\_\_\_.  
a. right; fall  
b. right; rise  
c. left; fall  
d. left; rise

ANS: D

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

24. Assume the price of gasoline triples. What will likely happen to the demand for large SUVs? The demand curve will shift to the \_\_\_\_\_ and demand will \_\_\_\_\_.  
a. left; decrease  
b. left; increase  
c. right; decrease  
d. right; increase

ANS: A

DIF: 3

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

25. The equilibrium price is established when the quantity \_\_\_\_\_.  
a. purchased is equal to the quantity offered  
b. supplied is equal to the amount of raw materials available  
c. bought is equal to the quantity demanded  
d. demanded is equal to the quantity supplied at a lower price

ANS: A

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Analytic

MSC: KN

26. If the market price is above the equilibrium price, \_\_\_\_\_.  
a. producers will earn large profits  
b. consumers will go on strike and not purchase any of the product  
c. the demand curve will shift to the right causing the surplus to go away  
d. a surplus will occur and prices and production will fall

ANS: D

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

27. A surplus will occur when \_\_\_\_\_.  
a. production quantities are falling  
b. price is above the equilibrium point  
c. price is below the equilibrium point  
d. the demand curve is shifting to the right

ANS: B

DIF: 3

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

28. A shortage will occur when \_\_\_\_\_.  
a. production quantities are rising  
b. prices are falling  
c. price is below the equilibrium point  
d. the demand curve is shifting to the left

ANS: C

DIF: 3

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

29. Supply and demand correct a shortage by \_\_\_\_\_.  
a. reducing the product price to decrease production  
b. raising the price to decrease production  
c. keeping the price the same but decreasing production  
d. raising the price to increase production

ANS: D

DIF: 2

REF: Microeconomics: The Forces of Demand and Supply

NAT: AACSB Reflective Thinking

MSC: AP

30. Holding supply constant and decreasing demand will cause \_\_\_\_\_.  
a. prices to rise and production to fall  
b. prices to fall and production to rise  
c. prices and production both to fall  
d. prices and production both to rise

ANS: C                      DIF: 3                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Reflective Thinking                      MSC: AP

31. The three major types of economic systems are \_\_\_\_\_.  
a. capitalism, planned economies, and mixed economies  
b. capitalism, pure competition, and planned economies  
c. capitalism, monopoly, and mixed economies  
d. capitalism, oligopoly, and planned economies

ANS: A                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

32. Most industrialized nations operate economies based on \_\_\_\_\_.  
a. planned economies  
b. private enterprise systems  
c. mixed economies  
d. socialist systems

ANS: B                      DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

33. Entrepreneurs have the most economic freedom in which type of economy?  
a. Communism  
b. Socialism  
c. Capitalism  
d. Mixed economy

ANS: C                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

34. Incentives to motivate employees to perform at their highest level are strongest in \_\_\_\_\_ systems.  
a. Capitalist  
b. Communist  
c. Socialist  
d. Monopolistic

ANS: A                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

35. Which of the following is considered to be the BEST example of pure competition in today's business environment?  
a. Agriculture  
b. The airline industry  
c. The electric and gas utility industries  
d. Major League Baseball

ANS: A                      DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

36. A particular industry has many competitors, each of whom has little control over price. In addition, it is fairly easy to enter the industry. This industry is an example of \_\_\_\_\_.  
a. pure competition  
b. monopolistic competition

- c. an oligopoly
- d. a pure monopoly

ANS: A                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Macroeconomics: Issues for the Entire Economy  
MSC: AP

37. Monopolistic competition has \_\_\_\_\_.
- a. only one seller
  - b. many buyers and sellers, none of whom can control prices
  - c. only a few sellers
  - d. many buyers and sellers, and the sellers have some control over price

ANS: D                      DIF: 2  
NAT: AACSB Analytic

REF: Macroeconomics: Issues for the Entire Economy  
MSC: KN

38. Consumers can choose from hundreds of different kinds and producers of cheese, each with a slightly different flavor and texture. This type of market structure is known as \_\_\_\_\_.
- a. pure competition
  - b. monopolistic competition
  - c. a monopoly
  - d. an oligopoly

ANS: B                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: Macroeconomics: Issues for the Entire Economy  
MSC: AP

39. The four different types of market structure in a private enterprise system are \_\_\_\_\_.
- a. communism, socialism, capitalism, and mixed systems
  - b. pure competition, monopolistic competition, oligopoly, and monopoly
  - c. socialism, oligopoly, monopoly, and pure competition
  - d. mixed, socialism, communism, and pure competition

ANS: B                      DIF: 2  
NAT: AACSB Analytic

REF: Macroeconomics: Issues for the Entire Economy  
MSC: KN

40. A particular industry has only a few competitors, who have at least some control over price. Entry into the industry is difficult. This industry is an example of \_\_\_\_\_.
- a. pure competition
  - b. monopolistic competition
  - c. an oligopoly
  - d. a pure monopoly

ANS: C                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Macroeconomics: Issues for the Entire Economy  
MSC: AP

41. Which of the following market structures best describes the U.S. auto industry?
- a. Monopoly
  - b. Pure competition
  - c. Monopolistic competition
  - d. Oligopoly

ANS: D                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: Macroeconomics: Issues for the Entire Economy  
MSC: AP

42. There is no direct competition in a particular industry, yet the firms have almost no control over pricing. This industry is an example of \_\_\_\_\_.
- a. monopolistic competition

- b. a regulated monopoly
- c. an oligopoly
- d. a pure monopoly

ANS: B                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Macroeconomics: Issues for the Entire Economy  
MSC: AP

43. Control over price by individual firms is highest in a(n) \_\_\_\_\_.  
a. regulated monopoly  
b. Oligopoly  
c. pure monopoly  
d. monopolistically competitive industry

ANS: C                      DIF: 1  
NAT: AACSB Analytic

REF: Macroeconomics: Issues for the Entire Economy  
MSC: KN

44. Barriers to entry into an industry are highest in \_\_\_\_\_.  
a. pure competition  
b. an oligopoly  
c. a monopoly  
d. monopolistic competition

ANS: C                      DIF: 2  
NAT: AACSB Analytic

REF: Macroeconomics: Issues for the Entire Economy  
MSC: KN

45. Unless it is regulated or only temporary, the market situation called \_\_\_\_\_ is prohibited in the U.S. through antitrust legislation.  
a. Communism  
b. Monopoly  
c. Oligopoly  
d. monopolistic competition

ANS: B                      DIF: 2  
NAT: AACSB Analytic

REF: Macroeconomics: Issues for the Entire Economy  
MSC: KN

46. Which of the following best describes your local cable TV company?  
a. Pure monopoly  
b. Oligopoly  
c. Monopolistic competition  
d. Regulated monopoly

ANS: D                      DIF: 3  
NAT: AACSB Reflective Thinking

REF: Macroeconomics: Issues for the Entire Economy  
MSC: AP

47. Before the patent expired on allergy medicine Claritin, pharmaceutical company Schering-Plough was able to set its own price in the marketplace. From which type of competition did the company benefit?  
a. Oligopoly  
b. Pure competition  
c. Monopolistic competition  
d. Monopoly

ANS: D                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Macroeconomics: Issues for the Entire Economy  
MSC: AP

48. \_\_\_\_\_ is an economic system in which private property is eliminated.  
a. Socialism

- b. Capitalism
- c. Monopoly
- d. Communism

ANS: D                      DIF: 1  
NAT: AACSB Analytic

REF: Macroeconomics: Issues for the Entire Economy  
MSC: KN

49. Under communism, \_\_\_\_\_.
- a. businesses are owned by individuals
  - b. management represents the owners
  - c. there is minimal government interference
  - d. profits are not acceptable and the right to choose one's occupation is widely restricted

ANS: D                      DIF: 1  
NAT: AACSB Analytic

REF: Macroeconomics: Issues for the Entire Economy  
MSC: KN

50. In a \_\_\_\_\_ system, the government owns all of the nation's major industries, but still allows private ownership in less crucial areas.
- a. Communism
  - b. Socialism
  - c. Capitalism
  - d. mixed economy

ANS: B                      DIF: 2  
NAT: AACSB Analytic

REF: Macroeconomics: Issues for the Entire Economy  
MSC: KN

51. In a particular country, the government owns all the transportation companies, the utilities, the energy suppliers, and major manufacturing firms. Small businesses are privately owned. What type of economic system does this country have?
- a. Communism
  - b. Socialism
  - c. Capitalism
  - d. Mixed economy

ANS: B                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Macroeconomics: Issues for the Entire Economy  
MSC: AP

52. \_\_\_\_\_ has a blend of both planned and free enterprise system.
- a. Capitalism
  - b. Communism
  - c. A mixed market economy
  - d. A private government economy

ANS: C                      DIF: 2  
NAT: AACSB Analytic

REF: Macroeconomics: Issues for the Entire Economy  
MSC: KN

53. A country has a strong private sector, along with publicly owned enterprises. Entrepreneurs and private-sector investors are entitled to profits, after taxes, and even state-owned enterprises are expected to at least break even. What type of economic system does this country have?
- a. Capitalism
  - b. Communism
  - c. Socialism
  - d. Mixed economy

ANS: D                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Macroeconomics: Issues for the Entire Economy  
MSC: AP

54. The conversion of Social Security from government-owned and operated into privately held businesses would be accomplished through \_\_\_\_\_.  
a. Deregulation  
b. pure competition  
c. regulated monopolies  
d. Privatization

ANS: D                      DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Reflective Thinking                      MSC: AP

55. During an economic recovery, consumer spending \_\_\_\_\_ and unemployment \_\_\_\_\_.  
a. increases; increases  
b. increases; decreases  
c. decreases; increases  
d. decreases; decreases

ANS: B                      DIF: 1                      REF: Evaluating Economic Performance  
NAT: AACSB Analytic                      MSC: KN

56. The rise in popularity of selling personal goods on eBay demonstrates the business cycle of \_\_\_\_\_.  
a. Recession  
b. Recovery  
c. Prosperity  
d. Depression

ANS: A                      DIF: 3                      REF: Evaluating Economic Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

57. \_\_\_\_\_ is the relationship between the goods and services produced in a nation each year and workers, raw materials, and other inputs necessary to produce them.  
a. GDP (Gross Domestic Product)  
b. Per capita income  
c. Prosperity  
d. Productivity

ANS: D                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Analytic                      MSC: KN

58. Many of the gains in U.S. productivity can be attributed to \_\_\_\_\_.  
a. Deflation  
b. budget surplus  
c. a steady Consumer Price Index  
d. Technology

ANS: D                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Technology                      MSC: KN

59. \_\_\_\_\_ is a commonly used measure of productivity.  
a. GDP (Gross Domestic Product)  
b. Prosperity  
c. The business cycle  
d. The average wage

ANS: A                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Analytic                      MSC: KN



60. The sum of all goods and services produced within a nation's boundaries each year is the \_\_\_\_\_.  
a. Gross National Index  
b. Producer Price Index  
c. Global Market Indicator  
d. Gross Domestic Product

ANS: D                      DIF: 3  
NAT: AACSB Analytic

REF: Evaluating Economic Performance  
MSC: KN

61. \_\_\_\_\_ is caused by increases in the prices of raw materials and other factors of production.  
a. The Consumer Price Index (CPI)  
b. Demand-pull inflation  
c. Cost-push inflation  
d. A recession

ANS: C                      DIF: 2  
NAT: AACSB Analytic

REF: Evaluating Economic Performance  
MSC: KN

62. Assume that the number of people wanting to buy homes increases sharply in your local area. The price of homes will likely \_\_\_\_\_, which is an example of \_\_\_\_\_.  
a. increase; cost-push inflation  
b. decrease; cost-push inflation  
c. increase; demand-pull inflation  
d. decrease; demand-pull inflation

ANS: C                      DIF: 2  
NAT: AACSB Reflective Thinking

REF: Evaluating Economic Performance  
MSC: AP

63. \_\_\_\_\_ provides a running measure of consumer price changes.  
a. The Consumer Price Index (CPI)  
b. Devaluation  
c. Per capita income  
d. The Producer Price Index (PPI)

ANS: A                      DIF: 2  
NAT: AACSB Analytic

REF: Evaluating Economic Performance  
MSC: KN

64. Economists refer to a nation's \_\_\_\_\_ as an indicator of its economic health.  
a. gross domestic product (GDP)  
b. inflation rate  
c. recession rate  
d. unemployment rate

ANS: D                      DIF: 2  
NAT: AACSB Analytic

REF: Evaluating Economic Performance  
MSC: KN

65. The four types of unemployment are \_\_\_\_\_.  
a. recessional, inflation, frictional, and cyclical  
b. inflation, frictional, cyclical, and structural  
c. recessional, frictional, cyclical, and structural  
d. frictional, cyclical, structural, and seasonal

ANS: D                      DIF: 2  
NAT: AACSB Analytic

REF: Evaluating Economic Performance  
MSC: KN

66. Kim graduated from college in May and is looking for a job. She is \_\_\_\_\_ unemployed.

- a. Structurally
- b. Cyclically
- c. Seasonally
- d. Frictionally

ANS: D

DIF: 2

REF: Evaluating Economic Performance

NAT: AACSB Analytic

MSC: KN

67. Lucy worked as a manager at a phone company that recently experienced a number of layoffs due to an economic slow time. Lucy's employment would be described as \_\_\_\_\_.

- a. Structural
- b. Cyclical
- c. Frictional
- d. Seasonal

ANS: B

DIF: 2

REF: Evaluating Economic Performance

NAT: AACSB Reflective Thinking

MSC: AP

68. Which type of unemployment typically lasts the longest?

- a. Structural
- b. Cyclical
- c. Seasonal
- d. Frictional

ANS: A

DIF: 2

REF: Evaluating Economic Performance

NAT: AACSB Analytic

MSC: KN

69. Monetary policy \_\_\_\_\_.

- a. uses interest rate variations and availability of funds to influence the nation's economy
- b. is of limited use in controlling inflation
- c. is of little use in expanding business spending
- d. frequently causes taxes to rise

ANS: A

DIF: 2

REF: Managing the Economy's Performance

NAT: AACSB Analytic

MSC: KN

70. The part of the federal government responsible for monetary policy is \_\_\_\_\_.

- a. the Federal Reserve System
- b. Congress
- c. the U.S. Treasury
- d. the President

ANS: A

DIF: 1

REF: Managing the Economy's Performance

NAT: AACSB Analytic

MSC: KN

71. Business borrowing becomes easier when \_\_\_\_\_.

- a. the federal government increases spending
- b. the federal government decreases spending
- c. the Federal Reserve increases the money supply
- d. the Federal Reserve decreases the money supply

ANS: C

DIF: 3

REF: Managing the Economy's Performance

NAT: AACSB Reflective Thinking

MSC: AP

72. Assume that the Federal Reserve slows the growth in the money supply. As a result, inflation will \_\_\_\_\_ and interest rates will \_\_\_\_\_.
- a. fall; rise
  - b. fall; fall
  - c. rise; fall
  - d. rise; rise

ANS: A                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

73. Two major policy tools are available for controlling economic activity. They are \_\_\_\_\_.
- a. tax and spending policies
  - b. monetary and fiscal policies
  - c. interest rate and credit policies
  - d. interest rate and taxing policies

ANS: B                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

74. The Federal Reserve increases the amount of money banks can lend. As a result, interest rates will \_\_\_\_\_ and economic growths will \_\_\_\_\_.
- a. increase; increase
  - b. fall; fall
  - c. fall; increase
  - d. increase; fall

ANS: C                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

75. Fiscal policy \_\_\_\_\_.
- a. reduces the money supply
  - b. increases the money supply
  - c. always results in increasing the national debt
  - d. can be used to increase economic activity

ANS: D                      DIF: 3                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

76. By changing \_\_\_\_\_, the Federal Reserve can expand or shrink funds available to lend.
- a. Taxes
  - b. Spending
  - c. fees charged on household and business checking and savings accounts
  - d. interest rates

ANS: D                      DIF: 3                      REF: Managing the Economy's Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

77. Concerning a balanced budget, all of the following statements are correct EXCEPT:
- a. A balanced budget does not mean an end to the federal debt.
  - b. The federal government has rarely balanced its budget during the last 50 years.
  - c. Balanced budgets will result in lower interest rates to all private borrowers.
  - d. A balanced budget is achieved when all tax receipts equal all spending in a particular year.

ANS: C                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

78. The Federal Reserve slows the growth in the supply of money and credit. Interest rates will likely \_\_\_\_\_, which is an example of \_\_\_\_\_ policy.
- a. rise; fiscal
  - b. fall; fiscal
  - c. rise; monetary
  - d. fall; monetary

ANS: C                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

79. The federal government raises corporate income taxes in order to reduce the budget deficit. This change will likely \_\_\_\_\_ economic activity, which is an example of \_\_\_\_\_ policy.
- a. decrease; monetary
  - b. increase; monetary
  - c. increase; fiscal
  - d. decrease; fiscal

ANS: D                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

80. A balanced budget will occur when \_\_\_\_\_.
- a. all of the national debt is repaid
  - b. taxes, fees, and borrowings are equal to government spending for the year
  - c. taxes and fees equal all government spending except for capital expenditures
  - d. all federal taxes and fees equal all federal government spending

ANS: B                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

81. All of the following are key challenges facing business in the new century EXCEPT \_\_\_\_\_.
- a. the shift toward a global information economy
  - b. the aging of the workforce
  - c. the surplus of college graduates
  - d. growth of India and China

ANS: C                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

82. The U.S. population is \_\_\_\_\_.
- a. getting older
  - b. less diverse than it was 30 years ago
  - c. Declining
  - d. expanding too rapidly

ANS: A                      DIF: 2                      REF: Global Economic Challenges of the 21<sup>st</sup>-Century  
NAT: AACSB Analytic                      MSC: KN

83. Which of the following is not a source of government funds to cover the annual budget?
- a. Taxes
  - b. Fees
  - c. Borrowing
  - d. monetary policy

ANS: D                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

84. Which of the following does not make up part of the national debt?

- a. Taxes
- b. treasury bills
- c. treasury notes
- d. treasury bonds

ANS: A                      DIF: 1

NAT: AACSB Analytic

REF: Managing the Economy's Performance

MSC: KN

### TRUE/FALSE

1. Economics deals only with the allocation of abundant resources by business.

ANS: F                      DIF: 1

Supply

NAT: AACSB Analytic

REF: Microeconomics: The Forces of Demand and

MSC: KN

2. Decisions made by individuals and businesses have little impact on overall economic conditions.

ANS: F                      DIF: 2

Supply

NAT: AACSB Reflective Thinking

REF: Microeconomics: The Forces of Demand and

MSC: AP

3. Changes in overall government spending have a macroeconomic effect.

ANS: T                      DIF: 1

Supply

NAT: AACSB Analytic

REF: Microeconomics: The Forces of Demand and

MSC: KN

4. Macroeconomics deals with taxing and spending decisions made by governments.

ANS: T                      DIF: 1

Supply

NAT: AACSB Analytic

REF: Microeconomics: The Forces of Demand and

MSC: KN

5. Not-for-profit organizations must make economic decisions.

ANS: T                      DIF: 2

Supply

NAT: AACSB Reflective Thinking

REF: Microeconomics: The Forces of Demand and

MSC: AP

6. When a manager tries to predict prices and amounts that will be sold, he or she is dealing with microeconomics.

ANS: T                      DIF: 1

Supply

NAT: AACSB Reflective Thinking

REF: Microeconomics: The Forces of Demand and

MSC: AP

7. Microeconomics and macroeconomics are interrelated.

ANS: T                      DIF: 1

Supply

NAT: AACSB Analytic

REF: Microeconomics: The Forces of Demand and

MSC: KN

8. Supply refers to buyers' willingness and ability to purchase goods and services.

ANS: F                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

9. Typically, the higher the price, the larger the quantity offered for sale.

ANS: T                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

10. The graph showing the relationship between different prices and quantity offered for sale at each price is called a demand curve.

ANS: F                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

11. Assume that incomes rise. In this instance, the demand curve for homes is likely to shift upward and to the left.

ANS: F                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Reflective Thinking                      MSC: AP

12. The price of gasoline rises sharply. One likely outcome is that the demand curve for large SUVs should shift downward and to the left while the demand curve for small, fuel-efficient cars should shift up and to the right.

ANS: T                      DIF: 3                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Reflective Thinking                      MSC: AP

13. If demand for a product rises sharply, its price should decline and the quantity supplied should increase.

ANS: F                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Reflective Thinking                      MSC: AP

14. If buyers' incomes increase, the demand curve for most products will shift to the left.

ANS: F                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

15. Assume electric water heaters and gas water heaters are interchangeable, and assume the price of natural gas rises sharply relative to the price of electricity. The demand curve for gas water heaters should shift to the left.

ANS: T                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Reflective Thinking                      MSC: AP

16. The price of producing an item declines due to improved technology. The supply curve should shift to the left.
- ANS: F                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Reflective Thinking                      MSC: AP
17. A typical demand curve slopes downward, which reflects that lower and lower prices attract larger and larger amounts purchased.
- ANS: T                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN
18. If the number of suppliers of a particular product increases, so should the quantity supplied, and the price should fall.
- ANS: T                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN
19. Assume the number of new home buyers suddenly increases. The demand curve for homes will likely shift upward and to the right.
- ANS: T                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Reflective Thinking                      MSC: AP
20. Entrepreneurship is a philosophy of business, not a factor of production.
- ANS: F                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN
21. Forces of nature, such as a hurricane, can affect the supply curve.
- ANS: T                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN
22. A long-term tax on a product is eliminated. The supply curve should shift upward and to the right, and the price of that product will typically rise.
- ANS: F                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Reflective Thinking                      MSC: AP
23. When the supply curve shifts to the left and the demand curve remains unchanged, the price for the product or service will fall.
- ANS: F                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

24. The equilibrium price occurs at the point of intersection between the supply and demand curves.

ANS: T                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

25. In order to control the rising price of housing, the city council enacts rent controls. This mandated price is below the equilibrium price. Consequently, a shortage of housing may result.

ANS: T                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Reflective Thinking                      MSC: AP

26. If the equilibrium price is below the market price, a shortage of a good or service will likely result.

ANS: T                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

27. A shortage will occur if the market price is below the equilibrium price.

ANS: T                      DIF: 1                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

28. Equilibrium price refers to the intersection of the supply and demand curves.

ANS: T                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: KN

29. The cost of the raw materials used to produce a product falls. The supply curve will likely shift down and to the left.

ANS: F                      DIF: 2                      REF: Microeconomics: The Forces of Demand and Supply  
NAT: AACSB Analytic                      MSC: AP

30. Capitalism is also referred to as a public enterprise system.

ANS: F                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

31. Under a capitalistic system, the government tends to favor a "hands-off" attitude towards controlling business.

ANS: T                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

32. No two countries have exactly the same economic system.

ANS: T                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN



33. Under pure competition, no single producer has a significant amount of control over price.

ANS: T                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

34. Since there are numerous manufacturers of pet food, the product is sold in the pure competition market.

ANS: F                      DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Reflective Thinking                      MSC: AP

35. Monopolistic competition differs from pure competition because sellers have some control over prices.

ANS: T                      DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

36. An oligopoly is a market situation where there are only a few producers.

ANS: T                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

37. One example of an industry with high entry barriers is the airline industry.

ANS: T                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

38. Giant computer companies, such as Apple and Sony, are engaged in oligopoly competition.

ANS: T                      DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Reflective Thinking                      MSC: AP

39. Regulated monopolies are legal in the United States.

ANS: T                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

40. Natural monopolies are often industries with high entry barriers.

ANS: T                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

41. In most of the U.S., electric utilities operate as regulated monopolies.

ANS: T                      DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Reflective Thinking                      MSC: AP

42. Most communist systems allow some private ownership of less critical industries.

ANS: F                      DIF: 1                      REF: Macroeconomics: Issues for the Entire Economy  
NAT: AACSB Analytic                      MSC: KN

43. In recent years, China has been moving from communism toward a more market-oriented economy.

ANS: T                      DIF: 2                      REF: Macroeconomics: Issues for the Entire Economy

NAT: AACSB Analytic

MSC: KN

44. Socialism is one of the four market structures found in a private enterprise system.

ANS: F

DIF: 1

REF: Macroeconomics: Issues for the Entire Economy

NAT: AACSB Analytic

MSC: KN

45. Under socialism, there is no private property.

ANS: F

DIF: 1

REF: Macroeconomics: Issues for the Entire Economy

NAT: AACSB Analytic

MSC: KN

46. The government of one country owns the railroads, utilities, energy companies, and financial institutions. Ownership of small businesses is in private hands. This is an example of socialism.

ANS: T

DIF: 2

REF: Macroeconomics: Issues for the Entire Economy

NAT: AACSB Reflective Thinking

MSC: AP

47. A country with a "mixed economy" is a combination of the private enterprise system and a planned economy.

ANS: T

DIF: 1

REF: Macroeconomics: Issues for the Entire Economy

NAT: AACSB Analytic

MSC: KN

48. In a mixed economy, public enterprises are expected to lose money.

ANS: F

DIF: 1

REF: Macroeconomics: Issues for the Entire Economy

NAT: AACSB Analytic

MSC: KN

49. In a mixed economy, private firms never compete with public enterprises.

ANS: F

DIF: 1

REF: Macroeconomics: Issues for the Entire Economy

NAT: AACSB Analytic

MSC: KN

50. The United States has experienced several economic depressions since the 1930s.

ANS: F

DIF: 1

REF: Evaluating Economic Performance

NAT: AACSB Analytic

MSC: KN

51. Wild price fluctuations are considered to be inevitable in countries experiencing rapid economic growth.

ANS: F

DIF: 1

REF: Evaluating Economic Performance

NAT: AACSB Analytic

MSC: KN

52. Growth leads to expanded job opportunities, improved wages, and an increased standard of living.

ANS: T

DIF: 1

REF: Evaluating Economic Performance

NAT: AACSB Analytic

MSC: KN

53. Rising unemployment and slowing inflation may indicate that the economy is headed into a recession.

ANS: T

DIF: 2

REF: Evaluating Economic Performance

NAT: AACSB Reflective Thinking

MSC: AP

54. In the recovery stage of the business cycle, the economy emerges from recession.

ANS: T                      DIF: 1                      REF: Evaluating Economic Performance  
NAT: AACSB Analytic                      MSC: KN

55. During a recession, business spending falls but consumer spending remains relatively unchanged.

ANS: F                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

56. Increased purchases of discretionary items, such as cars and vacations, only appear during prosperity. Consumers are still wary of high purchases in the recovery stage.

ANS: F                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Analytic                      MSC: KN

57. If productivity rises, profits and wages can rise without inflation.

ANS: T                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

58. Gross domestic product (GDP) is the sum of all goods and services produced within a nation's boundaries each year.

ANS: T                      DIF: 1                      REF: Evaluating Economic Performance  
NAT: AACSB Analytic                      MSC: KN

59. The core inflation rate includes the prices of all goods and services.

ANS: F                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Analytic                      MSC: KN

60. Inflation benefits borrowers with fixed-rate loans, such as most homeowners.

ANS: T                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

61. Since energy and food prices fluctuate excessively from month to month, the Consumer Price Index (CPI) excludes these two variables.

ANS: F                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

62. Deflation is ideal for consumers and can only strengthen a nation's economy.

ANS: F                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

63. Cyclical unemployment is when the economy slows down and mid-managers, for example, are laid off.

ANS: T                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

64. During recessions, both cyclical and seasonal unemployment rise.

ANS: F                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Analytic                      MSC: KN

65. Andrew has a construction job in the Boston area. During winter, he is cyclically unemployed and looks for other work until the spring.

ANS: F                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

66. Those who lose their jobs due to structural reasons will generally be unemployed the longest.

ANS: T                      DIF: 2                      REF: Evaluating Economic Performance  
NAT: AACSB Analytic                      MSC: KN

67. Restrictive monetary policy reduces the money supply and helps to reduce inflation.

ANS: T                      DIF: 1                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

68. When the Federal Reserve pushes up interest rates, inflation should rise because it will cost more to borrow money.

ANS: F                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

69. In the United States, monetary policy is largely controlled by the Federal Reserve.

ANS: T                      DIF: 1                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

70. Assume that the Federal Reserve uses its available tools to push down interest rates. Economic activity should increase as a result.

ANS: T                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

71. Fiscal policy is used primarily to increase or decrease interest rates.

ANS: F                      DIF: 1                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

72. Lowering taxes is an example of fiscal policy.

ANS: T                      DIF: 1                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

73. Fiscal policy is used to increase or decrease the money supply, as well as change banking requirements and interest rates.

ANS: F                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

74. The Federal Reserve can implement both expansionary and restrictive monetary policies.

ANS: T                      DIF: 2                      REF: Managing the Economy's Performance  
NAT: AACSB Analytic                      MSC: KN

75. Assume that the federal government raises taxes in order to balance its budget. By itself, this action will tend to slow the rate of economic growth.

ANS: T                      DIF: 3                      REF: Managing the Economy's Performance  
NAT: AACSB Reflective Thinking                      MSC: AP

76. One of the 21st century's major economic challenges is dealing with a surplus of workers.

ANS: F                      DIF: 1                      REF: Global Economic Challenges of the 21<sup>st</sup>-Century  
NAT: AACSB Analytic                      MSC: KN

77. During the next two decades, a smaller percentage of older workers will reduce demands on employees for worker disability, retirement, and insurance.

ANS: F                      DIF: 1                      REF: Global Economic Challenges of the 21<sup>st</sup>-Century  
NAT: AACSB Analytic                      MSC: KN

78. As technological communication expands, customer service will become less important in the global economy.

ANS: F                      DIF: 2                      REF: Global Economic Challenges of the 21<sup>st</sup>-Century  
NAT: AACSB Reflective Thinking                      MSC: AP

79. Rising gas prices due to the fact that it is more expensive to access the remaining oil reserves in the ground is an example of cost-push inflation.

ANS: T                      DIF: 1                      REF: Evaluating Economic Performance  
NAT: AACSB Reflective Thinking                      MSC: AP