

BUS101 – A.Lynch

Quiz - Ch. 2

Multiple Choice

Each answer is worth 4 points.

1. From the business perspective, a key reason to study economics is to
 - a) gain a better understanding of past business choices in order to make better future decisions.
 - b) avoid the temptation to focus on past events.
 - c) ensure that demand exceeds supply.
 - d) learn how to achieve a monopoly position in markets with the potential to generate high profits.
2. The study of economics is divided into two core categories known as:
 - a) production and consumption.
 - b) data collection and forecasting.
 - c) macroeconomics and microeconomics.
 - d) supply economics and demand economics.
3. An economic system is a structure for
 - a) measuring gross domestic products.
 - b) allocating limited resources.
 - c) forecasting trends.
 - d) none of the above
4. _____ is a structure for allocating scarce resources.
 - a) An economic system
 - b) An econometric plan
 - c) A factor distributor
 - d) The gross domestic product
5. In capitalism people strive to raise their standard of living. Businesses contribute to this goal by _____.
 - a) offering value to the consumer.
 - b) using available resources.
 - c) attracting available talent.
 - d) forming oligopolistic markets.
6. _____ is a market structure with many competitors selling virtually identical products.
 - a) Natural competition
 - b) Pure competition
 - c) Oligopoly
 - d) Monopolistic competition
7. Which of the following is not a fundamental right of capitalism?
 - a) Right to own property
 - b) Right to compete
 - c) Right to keep profits and not pay taxes
 - d) Right to run a business
8. Competition among businesses
 - a) is consistent with the goals of socialism.
 - b) is a primary feature of a communist economic system.
 - c) ensures that everyone is a winner.
 - d) drives higher quality and lower prices in capitalism.
9. If the cost of an ice-cold Coke is more expensive during the summer months, consumers will
 - a) not buy at all.
 - b) buy no more or less due to the increase in price.
 - c) buy more due to the increase in price.
 - d) buy less due to the increase in price.
10. In 2005, General Motors introduced a blockbuster promotion by offering customers the employee discount prices for any vehicle. Chrysler and Ford followed the trend and offered the same program. This intense price competition among three major automobile producers resulted in lower profits for all three companies. This outcome illustrates a problem for firms in:

- a) pure competition.
 - b) pure monopoly.
 - c) monopolistic competition.
 - d) oligopolistic markets.
11. Compared to capitalism, in a socialist system we would expect to find:
- a) a smaller role for the government.
 - b) more emphasis on economic growth and a higher standard of living for the typical household.
 - c) a greater incentive for entrepreneurs to start new businesses.
 - d) more taxpayer subsidized social programs intended to promote a more equal distribution of wealth.
12. The ideas of political philosopher Karl Marx are most closely linked to the economic system known as:
- a) communism.
 - b) capitalism.
 - c) socialism.
 - d) mercantilism.
13. Government laws against monopolies are
- a) a key way the government promotes competition in a capitalist system.
 - b) inconsistent with the role of government in a capitalist system.
 - c) the main reason the U.S. economy is best classified as a socialist system.
 - d) the main way the government ensures an equal distribution of income in the U.S. economy.
14. Today the economies of virtually all nations would be classified as:
- a) pure socialism.
 - b) mixed economies.
 - c) pure capitalism.
 - d) pure communism.
15. One reason pure market economies are non-existent is because
- a) they are too expensive to maintain.
 - b) they don't adequately provide for the sick, the elderly, and the environment.
- c) they result in very high tax rates that undermine incentives.
 - d) they don't do enough to encourage entrepreneurship.
16. In the United States, the federal government:
- a) consistently runs a budget surplus since it operates most of its enterprises at a profit.
 - b) has been very reluctant to regulate business behavior.
 - c) plays only a very minor role in the economy.
 - d) is the largest employer, providing jobs for nearly three million Americans.
17. Natasha is very unhappy with conditions in her country. She has very little economic or political freedom. Virtually all productive enterprises are owned by the government, and they seem to be run very inefficiently. The result is frequent shortages and surpluses of goods and services. These conditions suggest that Natasha's country relies on a _____ economic system.
- a) communist
 - b) socialist
 - c) capitalist
 - d) monopolistic
18. The four basic types of unemployment are
- a) natural, artificial, voluntary, and induced.
 - b) cyclical, seasonal, structural, and frictional.
 - c) recovery, expansion, contraction, and stagnation.
 - d) micro, macro, industrial, and market-specific.
19. In the business cycle, a period in which GDP declines for at least two consecutive quarters is known as a(n):
- a) expansion.
 - b) depression.
 - c) trough.
 - d) recession.
20. Changes in the PPI can predict changes in the Consumer Price Index (CPI) because

- a) consumers pay what retailers charge.
 - b) they are computed using the same market basket.
 - c) producers often pass along price increases to consumers.
 - d) consumers and producers often buy the same goods.
21. Manufacturing jobs have migrated overseas due to increased productivity and low wages of workers in other countries. This contributes to _____ unemployment for American workers in the manufacturing sector.
- a) structural
 - b) frictional
 - c) seasonal
 - d) cyclical
22. An economy is experiencing hyperinflation when average prices of goods and services:
- a) rise faster than productivity.
 - b) increase by more than 100% in a year.
 - c) increase more than 50% per month.
 - d) decrease more than 50% per day.
23. Martha has noticed that the CPI has increased by 7% over the past year. The best conclusion for Martha to make based on this information is that
- a) her cost of living has increased by 7%.
 - b) her income has increased by 7%.
 - c) the weighted average of prices of goods and services in a market basket bought by a typical consumer have increased by 7%.
 - d) the price of necessities such as food, rent, and medicine have increased by an average of 7%.
24. The federal government runs a budget deficit when its
- a) spending outpaces revenue from taxes.
 - b) tax revenue outpaces its expenditures.
 - c) monetary policies reduce the amount of money in circulation.
 - d) gold reserves are inadequate to support the existing money supply.
25. Michael has inherited \$500,000 from the sale of a family business. His banker is advising he find multiple banks to deposit his money. Why?
- a) The Open Market Operations of the Federal Reserve would invest his money in other securities and might lose it without needing to justify the expenditure.
 - b) The Federal Reserve does not keep that much money in any one bank due to federal regulations prohibiting the buying and selling of securities.
 - c) The Federal Deposit Insurance Corporation will only insure up to \$100,000 in each account per customer, per bank. He would need more than one bank to ensure his money is federally protected in the event of an economic collapse of the banking system.
 - d) He needs to diversify his holdings in more than one bank to protect himself against fraudulent lending practices of banks.

