

## Ch. 02 Economics: The Framework for Business

1. An economy is both a social and a financial system.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis

**KEYWORDS:** Bloom's: Knowledge

2. Financial or social systems are not essential to the development of a strong economy.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis

**KEYWORDS:** Bloom's: Comprehension

3. The study of economics focuses on how people, businesses, and governments choose to allocate resources.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis

**KEYWORDS:** Bloom's: Knowledge

4. A key economic goal is to provide a deep understanding of past choices that can be used to guide future business decisions.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?

B-Head: Productivity

**KEYWORDS:** Bloom's: Comprehension

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5. An economic system is a structure for measuring gross domestic product.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis

**KEYWORDS:** Bloom's: Knowledge

6. Microeconomics is the study of a country's overall economic dynamics, such as the employment rate, the gross domestic product, and taxation policies.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**TOPICS:** A-Head: Economics: Navigating a Crisis

**KEYWORDS:** Bloom's: Knowledge

7. Macroeconomics issues directly affect one's day-to-day life, influencing key variables such as what jobs will be available, how much cash one will actually take home after taxes, or how much can one buy with that cash in any given month.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis

**KEYWORDS:** Bloom's: Knowledge

8. The study of economics falls into two broad categories called meta-economics and econometrics.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis

**KEYWORDS:** Bloom's: Knowledge

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9. Luke is taking an economics class that focuses on decisions made by individual business firms and consumers. Luke's class is concerned with microeconomic issues.

a. True  
b. False

*ANSWER:* True

*DIFFICULTY:* Difficulty: Moderate

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.01

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Economics: Navigating a Crisis

*KEYWORDS:* Bloom's: Application

10. Microeconomics focuses on individual consumers, families, and individual businesses.

a. True  
b. False

*ANSWER:* True

*DIFFICULTY:* Difficulty: Easy

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.01

*TOPICS:* A-Head: Economics: Navigating a Crisis

*KEYWORDS:* Bloom's: Comprehension

11. In 2011, the foreclosure rate dropped to the lowest level since 2007, when the recession began.

a. True  
b. False

*ANSWER:* True

*DIFFICULTY:* Difficulty: Easy

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.01

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Economics: Navigating a Crisis

B-Head: Global Economic Crisis: How Did This Happen?

*KEYWORDS:* Bloom's: Knowledge

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12. Starting in the mid-2000s, amidst many regulation and government policies, financial institutions maintained high reserves in case the mortgage-backed funds lost value.
- a. True
  - b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis  
B-Head: Global Economic Crisis: How Did This Happen?

**KEYWORDS:** Bloom's: Comprehension

13. With a new administration, President Obama proposed, and Congress passed, an \$825 billion economic stimulus package called the American Recovery and Reinvestment Act..
- a. True
  - b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis  
B-Head: Moving in a Better Direction

**KEYWORDS:** Bloom's: Knowledge

14. The unemployment rate hit 9.6% in 2010, leading to total Great Recession job losses of nearly 8 million. Many of these jobs will never come back as the economy continues to change, and old skills become obsolete.
- a. True
  - b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis  
B-Head: Global Economic Crisis: How Did This Happen?

**KEYWORDS:** Bloom's: Analysis

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15. The \$700 billion economic bailout package passed by Congress in 2008 was an example of monetary policy.
- a. True
  - b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis  
B-Head: Moving in a Better Direction

**KEYWORDS:** Bloom's: Comprehension

16. Fiscal policy is the government's effort to influence the economy through taxation and spending decisions to encourage growth and boost employment while curbing inflation.
- a. True
  - b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Fiscal Policy

**KEYWORDS:** Bloom's: Knowledge

17. In fiscal strategies, most economists agree that higher taxes can boost the economy by leaving more money with the government to spend or invest during economic crisis.
- a. True
  - b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Fiscal Policy

**KEYWORDS:** Bloom's: Comprehension

## Ch. 02 Economics: The Framework for Business

18. The government experiences a budget surplus when its tax revenue exceeds its expenditures.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Debt Ceiling/Fiscal Cliff

**KEYWORDS:** Bloom's: Knowledge

19. The government incurs a budget deficit, if revenue is higher than spending and must borrow money to cover the shortfall.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Debt Ceiling/Fiscal Cliff

**KEYWORDS:** Bloom's: Knowledge

20. The debt ceiling is the maximum amount Congress lets the government borrow.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Debt Ceiling/Fiscal Cliff

**KEYWORDS:** Bloom's: Knowledge

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21. The sum of all the money borrowed over the years and not yet repaid is the total fiscal debt.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Debt Ceiling/Fiscal Cliff

**KEYWORDS:** Bloom's: Knowledge

22. The debt ceiling is the maximum amount Congress lets the government lend to the public.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Debt Ceiling/Fiscal Cliff

**KEYWORDS:** Bloom's: Knowledge

23. The 12 Federal Reserve Banks are regional banks, privately owned by the member commercial banks in their individual districts.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Knowledge

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24. The federal government does not own the Federal Reserve Banks.

- a. True
- b. False

*ANSWER:* True

*DIFFICULTY:* Difficulty: Easy

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.02

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

*KEYWORDS:* Bloom's: Knowledge

25. The Federal Reserve does not regulate banks; only state regulatory agencies perform this function.

- a. True
- b. False

*ANSWER:* False

*DIFFICULTY:* Difficulty: Easy

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.02

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

*KEYWORDS:* Bloom's: Comprehension

26. State governments are actually the owners of the Federal Reserve Banks.

- a. True
- b. False

*ANSWER:* False

*DIFFICULTY:* Difficulty: Easy

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.02

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

*KEYWORDS:* Bloom's: Knowledge



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27. The Federal Reserve provides banking services to member banks and is the central bank of the United States.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Knowledge

28. The Fed is headed by a 50-member Board of Governors.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Knowledge

29. The Federal Reserve Bank is in charge of both fiscal and monetary policy.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Knowledge

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30. Money supply refers specifically to the amount of paper bills and metal coins in our overall economy.
- a. True
  - b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Knowledge

31. When the economy contracts, the Fed typically decreases the money supply.
- a. True
  - b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Knowledge

32. M1 and M2 are commonly used definitions for money supplies. If you use the debit card connected to your checking account to make purchases, it would be referred to as an M1.
- a. True
  - b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Comprehension

## Ch. 02 Economics: The Framework for Business

33. Ashley has decided to purchase a dress for the banquet using her credit card. Ashley will be using a form of the money supply most often referred to as M2.
- a. True
  - b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Comprehension

34. The Fed's decision to buy and sell government securities is decided by the Federal Open Market Committee.
- a. True
  - b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Knowledge

35. When inflation is a concern, the Fed buys securities.
- a. True
  - b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

36. Monetary policy is made by the Federal Open Market Committee.

- a. True
- b. False

*ANSWER:* True

*DIFFICULTY:* Difficulty: Challenging

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.02

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

*KEYWORDS:* Bloom's: Synthesis

37. When the economy is weak, the Fed sells government securities on the open market.

- a. True
- b. False

*ANSWER:* False

*DIFFICULTY:* Difficulty: Easy

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.02

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

*KEYWORDS:* Bloom's: Knowledge

38. The discount rate is the interest rate the Fed charges on its loans to commercial banks.

- a. True
- b. False

*ANSWER:* True

*DIFFICULTY:* Difficulty: Easy

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.02

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

*KEYWORDS:* Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

39. Capitalism is based on private ownership, economic freedom, and fair competition.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System

**KEYWORDS:** Bloom's: Knowledge

40. Capitalism places paramount importance on the need for the government to intervene in the economy to ensure a fair and equitable distribution of income.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System

**KEYWORDS:** Bloom's: Comprehension

41. The fundamental rights of capitalism guarantee that businesses will be profitable and taxes will be low, thus providing a strong motivation to start a business.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: The Fundamental Rights of Capitalism

**KEYWORDS:** Bloom's: Comprehension

## Ch. 02 Economics: The Framework for Business

42. Everlene's Bakery competes against many other bakeries in the same city. However, each bakery uses different recipes and each claims to offer better products than their rivals. For example, Everlene's advertises that it produces the "World's Best" chocolate chip cookies. This suggests that Everlene's Bakery is an example of pure competition.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Four Degrees of Competition

**KEYWORDS:** Bloom's: Evaluation

43. Government policies promoting free trade are consistent with the right to free choice, which is fundamental to capitalism.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: The Fundamental Rights of Capitalism

**KEYWORDS:** Bloom's: Comprehension

44. An entrepreneur with limited funds who wants to start a new business would probably be most successful in an monopolistic market, because the amount of competition in such markets is very limited.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Four Degrees of Competition

**KEYWORDS:** Bloom's: Comprehension

## Ch. 02 Economics: The Framework for Business

45. A typical supply curve shows that an increase in the price of a good will cause producers to decrease the quantity they supply.
- a. True
  - b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Supply and Demand: Fundamental Principles of a Free Market System

**KEYWORDS:** Bloom's: Knowledge

46. Federal law has made all types of monopolies illegal in the United States.
- a. True
  - b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Four Degrees of Competition

**KEYWORDS:** Bloom's: Analysis

47. Consumers will see prices fall when the quantity demanded exceeds quantity supplied.
- a. True
  - b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Supply and Demand: Fundamental Principles of a Free Market System

**KEYWORDS:** Bloom's: Analysis

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48. The price paid for goods and services will rise when the quantity demanded exceeds quantity supplied.
- a. True
  - b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Supply and Demand: Fundamental Principles of a Free Market System

**KEYWORDS:** Bloom's: Analysis

49. Brooklyn's Beachfront Bed and Breakfast loses money due to a sharp drop in the number of guests during the winter months. If Brooklyn's demand curve is like most demand curves, one way to attract more guests would be to offer lower rates during the off-season.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Supply and Demand: Fundamental Principles of a Free Market System

**KEYWORDS:** Bloom's: Evaluation

50. Morgan's Moped and Bicycle Store is located on the property of a five-star resort in southern Florida. Rental cost of the mopeds and bikes is based on one-hour increments. Morgan lowers his standard prices to attract patrons during daily rainstorms in June and August. This is an example of decreasing supply.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Supply and Demand: Fundamental Principles of a Free Market System

**KEYWORDS:** Bloom's: Evaluation



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51. Demand refers to the quantity of products that consumers are willing to buy at different market prices.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Supply and Demand: Fundamental Principles of a Free Market System

**KEYWORDS:** Bloom's: Comprehension

52. Market equilibrium identifies the price at which quantity supplied is equal to quantity demanded.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Supply and Demand: Fundamental Principles of a Free Market System

**KEYWORDS:** Bloom's: Comprehension

53. In a planned economy, the government plays only a minor role in the operation of the economy.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.04

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Planned Economies: Socialism and Communism

**KEYWORDS:** Bloom's: Knowledge

54. In capitalist economies, central government planning is paramount.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.04

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Planned Economies: Socialism and Communism

**KEYWORDS:** Bloom's: Comprehension

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55. Socialism is an economic system based on the principle that the government should own and operate key enterprises that directly affect public welfare.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.04

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Planned Economies: Socialism and Communism  
B-Head: Socialism

**KEYWORDS:** Bloom's: Knowledge

56. The North Korean and Cuban governments still own most of their nations' enterprises and actively control the performance of their nations' economies.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.04

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Planned Economies: Socialism and Communism  
B-Head: Communism

**KEYWORDS:** Bloom's: Analysis

57. Communism is an economic and political system in which a strong central government owns and controls almost all productive enterprises.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.04

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Planned Economies: Socialism and Communism  
B-Head: Communism

**KEYWORDS:** Bloom's: Comprehension

## Ch. 02 Economics: The Framework for Business

58. By the end of the 1980s, communism began to collapse across the Soviet Union and its satellite nations.

- a. True
- b. False

*ANSWER:* True

*DIFFICULTY:* Difficulty: Easy

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.04

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Planned Economies: Socialism and Communism  
B-Head: Communism

*KEYWORDS:* Bloom's: Knowledge

59. The few nations that still rely on a communist economic system have actually seen major improvements in their economic performance over the past decade.

- a. True
- b. False

*ANSWER:* False

*DIFFICULTY:* Difficulty: Moderate

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.04

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Planned Economies: Socialism and Communism  
B-Head: Communism

*KEYWORDS:* Bloom's: Analysis

60. Karl Marx envisioned communism as a system that would improve the lot of the common worker.

- a. True
- b. False

*ANSWER:* True

*DIFFICULTY:* Difficulty: Easy

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.04

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Planned Economies: Socialism and Communism  
B-Head: Communism

*KEYWORDS:* Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

61. One problem that plagued many communist economies was that the absence of free markets resulted in crippling shortages and surpluses of goods and services.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.04

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Planned Economies: Socialism and Communism

**KEYWORDS:** Bloom's: Knowledge

62. In the U.S. economy, various branches of government own major enterprises such as the postal service, schools, parks, libraries, universities, and the military.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.05

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Mixed Economies: The Story of the Future

**KEYWORDS:** Bloom's: Knowledge

63. The U.S. federal government is the nation's largest employer.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.05

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Mixed Economies: The Story of the Future

**KEYWORDS:** Bloom's: Knowledge

64. The federal government creates regulations that prohibit competition and stimulate consumers to work.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.05

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Mixed Economies: The Story of the Future

**KEYWORDS:** Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

65. Privatization is the conversion of government-owned enterprises to private ownership.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.05

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Mixed Economies: The Story of the Future

**KEYWORDS:** Bloom's: Comprehension

66. While the U.S. relies heavily on free markets, it is actually a mixed economy in which the government owns several major enterprises and regulates many aspects of business operations.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.05

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Mixed Economies: The Story of the Future

**KEYWORDS:** Bloom's: Analysis

67. Competition encourages companies to operate efficiently and responsively. The government does its part to stimulate fair competition by creating regulations to protect consumers and workers.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.05

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Mixed Economies: The Story of the Future

**KEYWORDS:** Bloom's: Analysis

68. Privatization is an important element of the movement toward a greater market orientation in many nations.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.05

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Mixed Economies: The Story of the Future

**KEYWORDS:** Bloom's: Analysis

## Ch. 02 Economics: The Framework for Business

69. The economic restructuring necessary to move toward greater reliance on markets has proven to be relatively easy for most previously planned economies to achieve.
- a. True
  - b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.05

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Mixed Economies: The Story of the Future

**KEYWORDS:** Bloom's: Comprehension

70. Many countries that have restructured to become more market-oriented have seen dramatic increase in the standard of living for most of their people.
- a. True
  - b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.05

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Mixed Economies: The Story of the Future

**KEYWORDS:** Bloom's: Comprehension

71. Gross Domestic Product (GDP) measures the total value of all final goods and services produced within a nation's physical boundaries over a given period of time.
- a. True
  - b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Gross Domestic Product

**KEYWORDS:** Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

72. GDP tends to overstate the amount of output produced by a nation's economy.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Gross Domestic Product

**KEYWORDS:** Bloom's: Knowledge

73. GDP, as the measurement of the total value of goods and services, includes the output produced within households and output produced by illegal activities.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Gross Domestic Product

**KEYWORDS:** Bloom's: Comprehension

74. In 2011, the GDP of the United States was about \$15.08 trillion, reflecting sluggish 1.8% growth rate versus 2010.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Gross Domestic Product

**KEYWORDS:** Bloom's: Comprehension

## Ch. 02 Economics: The Framework for Business

75. The unemployment rate includes only individuals over the age of 21 who were involuntarily laid off or fired from their previous jobs.
- a. True
  - b. False

*ANSWER:* False

*DIFFICULTY:* Difficulty: Easy

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.06

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Employment Level

*KEYWORDS:* Bloom's: Knowledge

76. The unemployment rate measures individuals 16 years of age and older without jobs who are actively seeking employment.
- a. True
  - b. False

*ANSWER:* True

*DIFFICULTY:* Difficulty: Easy

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.06

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Employment Level

*KEYWORDS:* Bloom's: Knowledge

77. Gross Domestic Product (GDP) includes the value of output produced within a nation even if that output is produced by a foreign-owned company.
- a. True
  - b. False

*ANSWER:* True

*DIFFICULTY:* Difficulty: Moderate

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.06

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Gross Domestic Product

*KEYWORDS:* Bloom's: Comprehension



## Ch. 02 Economics: The Framework for Business

78. The value of a Hyundai Sonata built in Montgomery, Alabama would be included in U.S. GDP even though Hyundai is actually a South Korean corporation.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Gross Domestic Product

**KEYWORDS:** Bloom's: Synthesis

79. Individuals who quit their jobs experience structural unemployment.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Employment Level

**KEYWORDS:** Bloom's: Comprehension

80. Cyclical unemployment results from layoffs during recessionary periods.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Employment Level

**KEYWORDS:** Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

81. Frictional unemployment may occur even when the economy is healthy, and may ultimately result in a better match between workers and jobs.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Employment Level

**KEYWORDS:** Bloom's: Knowledge

82. The predictable nature of the business cycle makes it easy to forecast when the next upturn or downturn in business activity will occur.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: The Business Cycle

**KEYWORDS:** Bloom's: Knowledge

83. An economy is said to be in a recession when GDP decreases for two consecutive quarters.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: The Business Cycle

**KEYWORDS:** Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

84. The two key phases of the business cycle are contraction and expansion.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: The Business Cycle

**KEYWORDS:** Bloom's: Knowledge

85. Contraction is a period of economic downturn marked by rising unemployment, business cutbacks, and decreases in consumer spending.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: The Business Cycle

**KEYWORDS:** Bloom's: Comprehension

86. The four basic types of unemployment are natural, cyclical, voluntary, and induced.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Employment Level

**KEYWORDS:** Bloom's: Comprehension

## Ch. 02 Economics: The Framework for Business

87. Unfortunately, depressions are a common problem in most free-market economies.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: The Business Cycle

**KEYWORDS:** Bloom's: Comprehension

88. Less expensive labor pools overseas might create layoffs at a U.S.-based engine plant. This is an example of structural unemployment.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Employment Level

**KEYWORDS:** Bloom's: Evaluation

89. Recovery is a period of increased employment, business expansion, and increased consumer spending.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: The Business Cycle

**KEYWORDS:** Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

90. Inflation occurs as the average prices of goods and services rise.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Price Levels

**KEYWORDS:** Bloom's: Comprehension

91. Productivity growth due to the infusion of technology enables employees to increase output and measure quality.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Productivity

**KEYWORDS:** Bloom's: Comprehension

92. Disinflation is a slowing in the rate of inflation.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Price Levels

**KEYWORDS:** Bloom's: Analysis

## Ch. 02 Economics: The Framework for Business

93. It is important that any government examine multiple measures of its own economic health, rather than relying on simply one or two dimensions.

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Productivity

**KEYWORDS:** Bloom's: Knowledge

94. To measure productivity, multiply the number of inputs by the cost of each input.

- a. True
- b. False

**ANSWER:** False

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Productivity

**KEYWORDS:** Bloom's: Comprehension

95. Changes in the producer price index (PPI) can sometimes predict changes in the consumer price index (CPI).

- a. True
- b. False

**ANSWER:** True

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Price Levels

**KEYWORDS:** Bloom's: Analysis

## Ch. 02 Economics: The Framework for Business

96. The economy, as a system, represents the:
- a. non-efficient use of material resources.
  - b. flow of resources from production through consumption.
  - c. means of production only.
  - d. means of capitalistic systems.

ANSWER: b

DIFFICULTY: Difficulty: Easy

LEARNING OBJECTIVES: BUSN.KELL.15.02.01

NATIONAL STANDARDS: United States - BUSPROG: Analytic

TOPICS: A-Head: Economics: Navigating a Crisis

KEYWORDS: Bloom's: Knowledge

97. In the broadest sense, *economics* studies the choices that:
- a. people make in disposing of unnecessary resources.
  - b. governments make in creating natural resources.
  - c. companies make in producing goods and services for corporate use.
  - d. people, governments, and companies make in allocating resources.

ANSWER: d

DIFFICULTY: Difficulty: Easy

LEARNING OBJECTIVES: BUSN.KELL.15.02.01

NATIONAL STANDARDS: United States - BUSPROG: Analytic

TOPICS: A-Head: Economics: Navigating a Crisis

KEYWORDS: Bloom's: Knowledge

98. 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.

ANSWER: a

DIFFICULTY: Difficulty: Easy

LEARNING OBJECTIVES: BUSN.KELL.15.02.01

NATIONAL STANDARDS: United States - BUSPROG: Analytic

TOPICS: A-Head: Economics: Navigating a Crisis

KEYWORDS: Bloom's: Comprehension

## Ch. 02 Economics: The Framework for Business

99. A \_\_\_\_\_ is targeted to borrowers with low credit scores, high debt-to-income ratios, or signs of a reduced ability to repay the money they borrow.
- home equity line of credit
  - revolving line of credit
  - fixed rate mortgage loan
  - subprime mortgage loan

**ANSWER:** d

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis  
B-Head: Global Economic Crisis: How Did This Happen?

**KEYWORDS:** Bloom's: Knowledge

100. Economics is divided into two core areas of study known as:
- production and consumption.
  - data collection and forecasting.
  - macroeconomics and microeconomics.
  - supply economics and demand economics.

**ANSWER:** c

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis

**KEYWORDS:** Bloom's: Knowledge

101. An economic system is a structure for:
- measuring gross domestic products.
  - allocating limited resources.
  - forecasting trends.
  - delivering unsurpassed value to customers.

**ANSWER:** b

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System

**KEYWORDS:** Bloom's: Comprehension



## Ch. 02 Economics: The Framework for Business

102. Macroeconomics focuses on:

- a. the major issues facing the national economy, but has little or no relevance to individuals.
- b. smaller economic units such as individual consumers, families, and individual businesses operating within the economy.
- c. the major issues facing the national economy that may seem abstract, but directly affect an individual's day-to-day life.
- d. the role of government, while microeconomics focuses on the private sector.

**ANSWER:** c

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis

**KEYWORDS:** Bloom's: Analysis

103. Which of the following would be studied in the greatest detail in a macroeconomics course?

- a. How a large automobile manufacturer decides how many SUVs to produce in a given model year
- b. How consumers would respond if a restaurant raised its prices
- c. How a firm in an oligopolistic market would respond to a change in the pricing strategy of other firms in its market
- d. Factors that influence the nation's unemployment rate

**ANSWER:** d

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis

**KEYWORDS:** Bloom's: Analysis

104. Microeconomics focuses on:

- a. the employment rate.
- b. individual businesses.
- c. the gross domestic product.
- d. taxation policies.

**ANSWER:** b

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis

**KEYWORDS:** Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

105. Some argue that the Federal Reserve lowering interest rates from mid-2000 to the end of 2002 greatly increased the money supply; however, opportunities to invest yielded paltry returns leading bankers to offer \_\_\_\_\_ in order to earn a higher return.
- a. revolving lines of credit
  - b. home equity lines of credit
  - c. fixed rate mortgage loans
  - d. subprime mortgage loans

**ANSWER:** d

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis  
B-Head: Global Economic Crisis: How Did This Happen?

**KEYWORDS:** Bloom's: Comprehension

106. Subprime loans were attractive to lenders because:
- a. financial institutions maintained high reserves.
  - b. they were secured by many rules and regulations.
  - c. they were absolutely risk-free.
  - d. they provided a higher return than many other investments.

**ANSWER:** d

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis  
B-Head: Global Economic Crisis: How Did This Happen?

**KEYWORDS:** Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

107. After the collapse of the dot com bubble and the 9/11 terrorist attacks, the stock market depreciated and unemployment increased leading many to fear that the country was on the brink of a full-blown recession. In order to stimulate the economy the Federal Reserve Bank:
- lowered taxes in an effort to increase spending.
  - lowered interest rates from 6.5% to 1.25% in an effort to increase spending.
  - increased taxes in an effort to increase spending.
  - increased interest rates from 1.25% to 6.5% in an effort to increase spending.

**ANSWER:** b

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis  
B-Head: Global Economic Crisis: How Did This Happen?

**KEYWORDS:** Bloom's: Comprehension

108. GeeGee's is a neighborhood bakery known for its scrumptious tea cakes. GeeGee's recipes call for expensive spices imported from Asia. Recently the cost of these spices has risen dramatically, leading GeeGee's to consider increasing its prices. In order to analyze how this change would affect consumer choices, GeeGee's management could perform a:
- microeconomic analysis.
  - macroeconomic analysis.
  - transformational economic analysis.
  - structural analysis.

**ANSWER:** a

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis

**KEYWORDS:** Bloom's: Evaluation

109. The \$700 billion economic bailout plan is called the:
- American Recovery and Reinvestment Act.
  - Troubled Assets Relief Program.
  - Troubled Assistance Relief Program.
  - Big Business Assistance Program.

**ANSWER:** b

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Economics: Navigating a Crisis  
B-Head: Moving in a Better Direction

**KEYWORDS:** Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

110. Fiscal policy refers to \_\_\_\_\_.

- a. government efforts to influence the economy through taxation and spending decisions
- b. private efforts to encourage economic growth investment and entrepreneurship
- c. methods that boost the economy by encouraging the supply of money
- d. actions that shape the economy by influencing interest rates

**ANSWER:** a

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Fiscal Policy

**KEYWORDS:** Bloom's: Knowledge

111. Which of the following situations illustrate a fiscal policy?

- a. The Fed's policy was announced today that the Federal Funds Rate will increase by 1.25%, thereby helping to curb inflation.
- b. The President signed an executive order that mandated a tax rate increase of 10% on durable goods.
- c. President Franklin Delano Roosevelt signed an executive order that required private citizens to surrender all gold and silver currency to the federal government in 1935, or face fines or imprisonment.
- d. For fiscal year 2008, the federal government's expenditures exceeded its revenues by nearly five hundred billion dollars.

**ANSWER:** b

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Fiscal Policy

**KEYWORDS:** Bloom's: Synthesis

## Ch. 02 Economics: The Framework for Business

112. \_\_\_\_\_ refers to government efforts to influence the economy through taxation and spending decisions designed to encourage growth, boost employment, and curb inflation.
- a. Monetary policy
  - b. Fiscal policy
  - c. Pricing policy
  - d. Production policy

**ANSWER:** b

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Fiscal Policy

**KEYWORDS:** Bloom's: Knowledge

113. The debt ceiling is:
- a. the maximum amount Congress lets the government borrow.
  - b. the sum of all the money that the federal government has lent over the years.
  - c. the total value of all final goods and services produced within a nation's physical boundaries.
  - d. the total amount of money within the overall economy.

**ANSWER:** a

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Debt Ceiling/Fiscal Cliff

**KEYWORDS:** Bloom's: Knowledge

114. In 2011, which of the following steps created a fiscal cliff?
- a. When Congress reached a reasonable long-term agreement to lower tax rates
  - b. When the government decreased the debt ceiling
  - c. When the government incurred a budget surplus
  - d. When Congress finally agreed to raise the debt ceiling

**ANSWER:** d

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Debt Ceiling/Fiscal Cliff

**KEYWORDS:** Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

115. The sum of all the money borrowed by the government over the years and not yet repaid is the total \_\_\_\_\_.  
a. fiscal debt  
b. subprime loan  
c. federal debt  
d. monetary debt

**ANSWER:** c

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Debt Ceiling/Fiscal Cliff

**KEYWORDS:** Bloom's: Knowledge

116. When tax revenue is higher than government expenditures, the government incurs a:  
a. budget deficit.  
b. windfall.  
c. budget surplus.  
d. national debt.

**ANSWER:** c

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Debt Ceiling/Fiscal Cliff

**KEYWORDS:** Bloom's: Knowledge

117. 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.

**ANSWER:** a

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Debt Ceiling/Fiscal Cliff

**KEYWORDS:** Bloom's: Comprehension

## Ch. 02 Economics: The Framework for Business

118. \_\_\_\_\_ refers to actions that shape the economy by influencing interest rates and the supply of money.
- a. Fiscal policy
  - b. Monetary policy
  - c. Revenue policy
  - d. Deficit policy

**ANSWER:** b

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Knowledge

119. The M2 money supply includes:
- a. all currency, credit cards, and most savings accounts.
  - b. all currency, most savings accounts, money market accounts, and certificates of deposit.
  - c. only currency and short-term money market accounts.
  - d. only currency.

**ANSWER:** b

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Knowledge

120. In the U.S., the control of the money supply is the responsibility of the:
- a. U.S. Department of the Treasury.
  - b. Federal Reserve.
  - c. U.S. Department of State.
  - d. U.S. Congress.

**ANSWER:** b

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Comprehension

## Ch. 02 Economics: The Framework for Business

121. Why are the members of the Fed Board of Governors appointed to 14-year terms that are staggered, with one expiring every 2 years?
- a. To encourage new approaches and fresh ideas from the Board of Governors
  - b. So that no single president can appoint all of the members, thereby ensuring that the Fed can act independently of political pressure
  - c. To ensure that there are experienced members during all economic cycles
  - d. Because after 14 years they are automatically eligible to run for Fed Chair

**ANSWER:** b

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Comprehension

122. The Federal Reserve is the \_\_\_\_\_ of the United States.
- a. financial market
  - b. central bank
  - c. state business regulator
  - d. foreign exchange controller

**ANSWER:** b

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Knowledge

123. Which of the following is a function of the Fed?
- a. Every year, it creates a budget, or a financial plan.
  - b. It provides banking services for member banks and the federal government.
  - c. Every year, it calculates the expected spending for the federal government.
  - d. It outlines expected revenue from taxes and fees.

**ANSWER:** a

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Knowledge



## Ch. 02 Economics: The Framework for Business

124. In setting monetary policy, the Federal Reserve oversees the operation of 12 Federal Reserve Banks, which carry out Fed policies and perform banking services for commercial banks in their districts. These Federal Reserve Banks are owned by \_\_\_\_.
- a. the member commercial banks in their district
  - b. the federal government
  - c. the state government where they are located
  - d. the Treasury Department

**ANSWER:** a

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Comprehension

125. Banks help increase the money supply by:
- a. printing more money.
  - b. extending more loans to credit-worthy consumers.
  - c. holding more money in their accounts with the Federal Reserve.
  - d. sending more money to the Treasury Department.

**ANSWER:** b

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Analysis

126. The primary way the Fed controls the supply of money is by:
- a. establishing the amount of currency the U.S. Treasury is allowed to print each month.
  - b. changing the reserve requirement.
  - c. buying and selling government securities on the open market.
  - d. allowing banks to borrow more money from the U.S. Treasury.

**ANSWER:** c

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Comprehension

## Ch. 02 Economics: The Framework for Business

127. If the Fed wants to increase the money supply it should:

- a. raise the reserve requirement.
- b. raise the discount rate.
- c. cut taxes.
- d. buy government securities.

**ANSWER:** d

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Comprehension

128. A federal agency called the \_\_\_\_\_ was established to protect customer deposits in banks and thrift institutions for up to \$100,000 per customer, per bank.

- a. Federal Deposit Insurance Corporation (FDIC)
- b. Federal Reserve System
- c. Federal Open Market Committee
- d. Federal Deposit Requirement Program

**ANSWER:** a

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Comprehension

129. The core purpose of the Fed is to:

- a. influence the economy through taxation and spending decisions.
- b. encourage investors to foreclose loans during economic crisis.
- c. influence the size of the money supply.
- d. maintain an overall equilibrium pricing.

**ANSWER:** c

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

130. Open market operations are set by the Federal Open Market Committee. These operations help the government finance its deficit spending. To help guide them in decision making, who would benefit from closely watching the rate setting and outlook statements produced by the Open Market Committee?
- a. Only businesses
  - b. Only markets
  - c. Both businesses and markets
  - d. Individuals

*ANSWER:* c

*DIFFICULTY:* Difficulty: Moderate

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.02

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

*KEYWORDS:* Bloom's: Analysis

131. John recently read in the newspaper that the Federal Reserve chairman had expressed concern about inflation and indicated the Federal Reserve would be taking some action in order to prevent inflation from spiraling out of control. The Federal Reserve could use all of the following tools EXCEPT:
- a. selling government bonds in the open market.
  - b. increasing the discount rate.
  - c. increasing banks reserve requirements.
  - d. increasing government spending on roads and bridges.

*ANSWER:* d

*DIFFICULTY:* Difficulty: Challenging

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.02

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

*KEYWORDS:* Bloom's: Evaluation

## Ch. 02 Economics: The Framework for Business

132. Michael has inherited \$500,000 from the sale of a family business. His banker is advising him to 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 \$250,000 in each account per customer, per bank.
  - d. He needs to diversify his holdings in more than one bank to protect himself against fraudulent lending practices of banks.

**ANSWER:** c

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Synthesis

133. Credit is tight. Even borrowers with good credit have to shop around for loans, and it seems like banks are reluctant to loan their money. Of the following choices, what could be the reason?
- a. The Fed has raised the discount rate, thereby making it impossible for consumers to get a decent interest rate on their loans.
  - b. The Federal Open Market Committee has started selling securities.
  - c. The Fed attempts to increase the money supply when prices begin to rise.
  - d. The Fed has made some changes to the check-clearing processes of the member banks, charging higher fees for the service.

**ANSWER:** b

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Evaluation

## Ch. 02 Economics: The Framework for Business

134. Which of the following tools used by the Fed help protect depositors who may want to withdraw their money without notice?
- a. Discount rate
  - b. Interest rate
  - c. Open market operation
  - d. Reserve requirement

**ANSWER:** d

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Managing the Economy Through Fiscal and Monetary Policy  
B-Head: Monetary Policy

**KEYWORDS:** Bloom's: Knowledge

135. A basic characteristic of \_\_\_\_\_ is that both producers and consumers are free to make their own economic decisions on many basic issues.
- a. socialism
  - b. capitalism
  - c. communism
  - d. mercantilism

**ANSWER:** b

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System

**KEYWORDS:** Bloom's: Knowledge

136. In \_\_\_\_\_, many firms compete by selling differentiated products.
- a. a pure competition
  - b. monopolistic competition
  - c. a monopoly
  - d. a natural monopoly

**ANSWER:** b

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Four Degrees of Competition

**KEYWORDS:** Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

137. 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. regulating available talent.
  - d. forming oligopolistic markets.

**ANSWER:** a

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System

**KEYWORDS:** Bloom's: Comprehension

138. A market structure with pure competition has all of the following characteristics EXCEPT:
- a. the firms use product differentiation allowing consumers to easily identify their favorite brands.
  - b. customers can't distinguish one product from another.
  - c. firms can easily enter and leave the market.
  - d. no individual firm has any control over the price of the product.

**ANSWER:** a

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Four Degrees of Competition

**KEYWORDS:** Bloom's: Analysis

139. 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

**ANSWER:** c

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: The Fundamental Rights of Capitalism

**KEYWORDS:** Bloom's: Comprehension

## Ch. 02 Economics: The Framework for Business

140. 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.

*ANSWER:* d

*DIFFICULTY:* Difficulty: Easy

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.03

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Capitalism: The Free Market System  
B-Head: The Fundamental Rights of Capitalism

*KEYWORDS:* Bloom's: Knowledge

141. Which of the following is *not* a degree of competition?

- a. Oligopolistic competition
- b. Monopolistic competition
- c. Natural competition
- d. Pure competition

*ANSWER:* c

*DIFFICULTY:* Difficulty: Easy

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.03

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Capitalism: The Free Market System  
B-Head: Four Degrees of Competition

*KEYWORDS:* Bloom's: Knowledge

142. Pure competition is a market structure:

- a. with many competitors selling differentiated products.
- b. with only a handful of competitors selling products that can be similar or different.
- c. with just a single producer completely dominating the industry, leaving no room for any significant competitors
- d. with many competitors selling virtually identical products.

*ANSWER:* d

*DIFFICULTY:* Difficulty: Easy

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.03

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Capitalism: The Free Market System  
B-Head: Four Degrees of Competition

*KEYWORDS:* Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

143. Monopolistic competition is a market structure:

- a. with many competitors selling differentiated products.
- b. with only a handful of competitors selling products that can be similar or different.
- c. with many competitors selling virtually identical products.
- d. with just a single producer completely dominating the industry, leaving no room for any significant competitors.

**ANSWER:** d

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Four Degrees of Competition

**KEYWORDS:** Bloom's: Knowledge

144. Which of the following industries operates under a market structure of monopolistic competition?

- a. Clothing industry
- b. Agricultural industry
- c. Soft drink industry
- d. Utility industry

**ANSWER:** a

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Four Degrees of Competition

**KEYWORDS:** Bloom's: Evaluation

145. Firms in oligopolistic markets tend to:

- a. keep prices as low as possible.
- b. avoid price competition whenever possible.
- c. be very concerned about the possibility of new firms entering their market.
- d. have very small market shares.

**ANSWER:** b

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Four Degrees of Competition

**KEYWORDS:** Bloom's: Knowledge



## Ch. 02 Economics: The Framework for Business

146. 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.

**ANSWER:** a

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Four Degrees of Competition

**KEYWORDS:** Bloom's: Analysis

147. Which of the following directly impacts the range of products and prices in the free market system?

- a. Government pricing policies
- b. New product development plans
- c. The constant interaction between buyers and sellers
- d. Corporate marketing programs

**ANSWER:** c

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Supply and Demand: Fundamental Principles of a Free Market System

**KEYWORDS:** Bloom's: Comprehension

148. The \_\_\_\_\_ shows the quantity of products that producers will offer at various market prices.

- a. supply matrix
- b. demand curve
- c. supply curve
- d. demand analysis

**ANSWER:** c

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Supply and Demand: Fundamental Principles of a Free Market System

**KEYWORDS:** Bloom's: Comprehension

## Ch. 02 Economics: The Framework for Business

149. Companies that attempt to monopolize a particular market are likely to violate the:

- a. Fair Competition Standards Act of 1911.
- b. Taft-Sharpley Free Enterprise Act of 1957.
- c. Sherman Antitrust Act of 1890.
- d. Market Competition Enhancement Act of 1978.

**ANSWER:** c

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Four Degrees of Competition

**KEYWORDS:** Bloom's: Comprehension

150. If low-cost solar power were to become a viable energy source in households across the U.S., what would be the economic impact on energy prices?

- a. Energy costs across the country would increase with adoption of the new energy source.
- b. Housing prices would decrease as new homes are built with this new energy source.
- c. Prices would increase as this is a new energy source.
- d. Prices would decrease as competition increases in energy production.

**ANSWER:** d

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Supply and Demand: Fundamental Principles of a Free Market System

**KEYWORDS:** Bloom's: Synthesis

151. Demand is defined as:

- a. the number of consumers in a market.
- b. the quantity of products that consumers are willing to buy at different prices.
- c. the amount of products produced.
- d. the annual quantity of products sold by retailers.

**ANSWER:** b

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Supply and Demand: Fundamental Principles of a Free Market System

**KEYWORDS:** Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

152. A supply curve shows that as prices rise the:

- a. quantity of products produced declines.
- b. equilibrium point shifts upward.
- c. number of products demanded stays the same.
- d. quantity of products produced rises.

**ANSWER:** d

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Supply and Demand: Fundamental Principles of a Free Market System

**KEYWORDS:** Bloom's: Comprehension

153. Supply is defined as:

- a. the quantity of products that producers are willing to offer for sale at different market prices.
- b. the number of consumers in a market.
- c. the quantity of products that consumers are willing to buy at different prices.
- d. the amount of products produced.

**ANSWER:** a

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Supply and Demand: Fundamental Principles of a Free Market System

**KEYWORDS:** Bloom's: Knowledge

154. The government often allows only one company to provide electricity in a given geographic area, because allowing several companies to do so would result in an inefficient duplication of infrastructure. This suggests that electric utilities are:

- a. trust busters.
- b. oligopolies.
- c. natural monopolies.
- d. pure players.

**ANSWER:** c

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Four Degrees of Competition

**KEYWORDS:** Bloom's: Synthesis

## Ch. 02 Economics: The Framework for Business

155. If the cost of an iced-tea 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.

**ANSWER:** d

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Supply and Demand: Fundamental Principles of a Free Market System

**KEYWORDS:** Bloom's: Application

156. The demand curve shows the relationship between the:

- a. price and quantity from a customer demand standpoint..
- b. quantity of products produced from a producer demand standpoint.
- c. macroeconomics and microeconomics.
- d. suppliers' prices and consumers' prices.

**ANSWER:** a

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Supply and Demand: Fundamental Principles of a Free Market System

**KEYWORDS:** Bloom's: Comprehension

157. Anne notices that her clothing store isn't selling many of the jeans priced at \$120. She wants to quickly increase sales of these jeans before next season's fashion comes in. What would be her best approach?

- a. Keep the prices the same but move the jeans to another section of the store.
- b. Drop the price of the jeans so that demand will increase.
- c. Raise the price of the jeans to make them seem more exclusive.
- d. Put even higher priced jeans next to the \$120 jeans.

**ANSWER:** b

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Capitalism: The Free Market System  
B-Head: Supply and Demand: Fundamental Principles of a Free Market System

**KEYWORDS:** Bloom's: Evaluation

## Ch. 02 Economics: The Framework for Business

158. The main economic goal of the government in a socialist economy is to:

- a. keep taxes as low as possible.
- b. operate key economic enterprises in the best interests of the general public.
- c. achieve the highest possible rate of economic growth.
- d. provide the widest array of economic freedoms to its citizens.

*ANSWER:* b

*DIFFICULTY:* Difficulty: Easy

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.04

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Planned Economies: Socialism and Communism  
B-Head: Socialism

*KEYWORDS:* Bloom's: Knowledge

159. In late 2010, in order to increase their growth, many socialistic economies have decided to:

- a. increase government spending.
- b. eliminate some public benefits.
- c. increase some public benefits.
- d. decrease government revenue.

*ANSWER:* b

*DIFFICULTY:* Difficulty: Easy

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.04

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Planned Economies: Socialism and Communism  
B-Head: Socialism

*KEYWORDS:* Bloom's: Comprehension

160. 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.

*ANSWER:* a

*DIFFICULTY:* Difficulty: Moderate

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.04

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Planned Economies: Socialism and Communism  
B-Head: Communism

*KEYWORDS:* Bloom's: Comprehension

## Ch. 02 Economics: The Framework for Business

161. Socialist economies have experienced a recent slowdown in growth because of:

- a. high taxes and the elimination of public benefits.
- b. low taxes and free private education.
- c. high taxes and lavish social programs.
- d. low taxes and the elimination of public benefits..

**ANSWER:** c

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.04

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Planned Economies: Socialism and Communism  
B-Head: Socialism

**KEYWORDS:** Bloom's: Analysis

162. 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

**ANSWER:** a

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.04

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Planned Economies: Socialism and Communism  
B-Head: Communism

**KEYWORDS:** Bloom's: Synthesis

163. One reason pure market economies are nonexistent is because they:

- a. are too expensive to maintain.
- b. don't adequately provide for the sick, the young, the elderly, and the environment.
- c. result in very high tax rates that undermine incentives.
- d. don't do enough to encourage entrepreneurship.

**ANSWER:** b

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.05

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Mixed Economies: The Story of the Future

**KEYWORDS:** Bloom's: Comprehension

## Ch. 02 Economics: The Framework for Business

164. Most business enterprises in the United States are privately owned, but the federal government owns a number of major enterprises, e.g., the U.S. Postal Service. This suggests that the U.S. economy is best classified as a:
- a. pure market economy.
  - b. mixed economy.
  - c. true command economy.
  - d. pure planned economy.

**ANSWER:** b

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.05

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Mixed Economies: The Story of the Future

**KEYWORDS:** Bloom's: Comprehension

165. To stimulate competition and protect both consumers and workers, the federal government:
- a. places heavy taxes on firms in monopolistic competition.
  - b. places limits on international trade in order to stimulate domestic production.
  - c. creates regulations to intervene in the free market.
  - d. creates business systems to meet the needs of all consumers.

**ANSWER:** c

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.05

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Mixed Economies: The Story of the Future

**KEYWORDS:** Bloom's: Comprehension

166. \_\_\_\_\_ is the process of converting government-owned businesses to individual ownership.
- a. Privatization
  - b. Globalization
  - c. Competition
  - d. Collusion

**ANSWER:** a

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.05

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Mixed Economies: The Story of the Future

**KEYWORDS:** Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

167. In recent years, the most common reason for tax reforms in formerly planned economies has been to:
- a. create a more equal distribution of income.
  - b. create new incentives for domestic and foreign investment.
  - c. eliminate the threat of hyperinflation.
  - d. protect the environment.

*ANSWER:* b

*DIFFICULTY:* Difficulty: Easy

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.05

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Mixed Economies: The Story of the Future

*KEYWORDS:* Bloom's: Knowledge

168. \_\_\_\_\_ measures the total value of all final goods and services produced within a nation's borders over a given period of time.
- a. The consumer price index
  - b. Gross domestic product
  - c. Net national production
  - d. The production function

*ANSWER:* b

*DIFFICULTY:* Difficulty: Easy

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.06

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Gross Domestic Product

*KEYWORDS:* Bloom's: Knowledge

169. The two key phases of the business cycle are:
- a. trend and random variation.
  - b. inflation and recession.
  - c. contraction and expansion.
  - d. inflation and deflation.

*ANSWER:* c

*DIFFICULTY:* Difficulty: Easy

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.06

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Evaluating Economic Performance: What's Working?  
B-Head: The Business Cycle

*KEYWORDS:* Bloom's: Knowledge



## Ch. 02 Economics: The Framework for Business

170. 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

**ANSWER:** a

**DIFFICULTY:** Difficulty: Moderate

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Employment Level

**KEYWORDS:** Bloom's: Analysis

171. \_\_\_\_\_ unemployment involves layoffs during recessions.

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

**ANSWER:** c

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Employment LevelEvaluating Economic Performance: What's Working?  
B-Head: Employment Level

**KEYWORDS:** Bloom's: Knowledge

172. In the business cycle, when is an economy in recession?

- a. When the GDP increases for at least two consecutive years
- b. When the GDP decreases for at least two consecutive years
- c. When the market is in an especially deep and prolonged "trough"
- d. When the GDP decreases for at least two consecutive quarters

**ANSWER:** d

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: The Business Cycle

**KEYWORDS:** Bloom's: Evaluation

## Ch. 02 Economics: The Framework for Business

173. 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.

**ANSWER:** d

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: The Business Cycle

**KEYWORDS:** Bloom's: Knowledge

174. Denise is a hard worker, but within the last year she and her boss, Angela, have not seen eye to eye. Angela has become more demanding and harder to reach to get clarification on projects. After one too many long working days with little or no job satisfaction, Denise walks into Angela's office and submits her resignation. Denise knows that her resumé is strong and feels confident she will find work. Denise is now facing \_\_\_\_\_ unemployment.
- a. seasonal
  - b. structural
  - c. frictional
  - d. cyclical

**ANSWER:** c

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Employment Level

**KEYWORDS:** Bloom's Evaluation

175. The economic measure that provides the most information about what is happening to prices of consumer goods is the:
- a. GDP.
  - b. PPI.
  - c. GNP.
  - d. CPI.

**ANSWER:** d

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Price Levels

**KEYWORDS:** Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

176. In the business cycle, a transition period of rising economic growth and increasing employment is a:

- a. recovery.
- b. peak.
- c. contraction.
- d. disinflation.

**ANSWER:** a

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: The Business Cycle

**KEYWORDS:** Bloom's: Knowledge

177. \_\_\_\_\_ is a period of robust economic growth and high employment indicating that businesses are capitalizing on new market opportunities.

- a. Expansion
- b. Recovery
- c. Depression
- d. Contraction

**ANSWER:** a

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: The Business Cycle

**KEYWORDS:** Bloom's: Knowledge

178. \_\_\_\_\_ means that prices, on average, are rising.

- a. Deflation
- b. Inflation
- c. Expansion
- d. Contraction

**ANSWER:** b

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Price Levels

**KEYWORDS:** Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

179. To evaluate inflation, the government uses:

- a. hyperinflation and disinflation.
- b. the consumer price index (CPI) and producer price index (PPI).
- c. productivity and unemployment.
- d. monetary policy and fiscal policy.

**ANSWER:** b

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Price Levels

**KEYWORDS:** Bloom's: Comprehension

180. The Consumer Price Index (CPI) measures the:

- a. change in the prices of gas and energy.
- b. change in weighted-average price over time in a "market basket" of goods and services bought by the typical consumer.
- c. change in prices of a set of goods representing the minimum acceptable standard of living for the nation's consumers.
- d. percentage of their income consumers must use to pay for goods relative to their average incomes in the same time period.

**ANSWER:** b

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Price Levels

**KEYWORDS:** Bloom's: Knowledge

181. 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.

**ANSWER:** c

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Price Levels

**KEYWORDS:** Bloom's: Knowledge

## Ch. 02 Economics: The Framework for Business

182. The amount of goods and services produced by an economy divided by the amount of resources used to make those goods and services, measures:
- a. consumer price index.
  - b. deflation.
  - c. inflation.
  - d. productivity.

**ANSWER:** d

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Productivity

**KEYWORDS:** Bloom's: Knowledge

183. 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 by more than 50% per month.
  - d. decrease by more than 50% per day.

**ANSWER:** c

**DIFFICULTY:** Difficulty: Easy

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Price Levels

**KEYWORDS:** Bloom's: Knowledge

184. Why is a low level of inflation desirable in an economy, and why is deflation not desirable?
- a. It reflects a healthy economy; people have money and are willing to spend it.
  - b. A low level of inflation keeps a currency from edging too near deflation.
  - c. Inflation helps to justify investment and keeps a currency strong.
  - d. Deflation means that the currency is increasing in value, and is actually desirable.

**ANSWER:** a

**DIFFICULTY:** Difficulty: Challenging

**REFERENCES:** Page 34

**LEARNING OBJECTIVES:** BUSN.KELL.15.02-06 - 02-06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Price Levels

**KEYWORDS:** Bloom's: Synthesis

## Ch. 02 Economics: The Framework for Business

185. Explain how macroeconomics differs from microeconomics. Illustrate these differences by identifying some specific topics these two branches of economics would examine.

*ANSWER:*

**Macroeconomics** is the study of a country's overall economic issues, such as the employment rate, the gross domestic product, and taxation policies. While macroeconomic issues may seem abstract, they directly impact your day-to-day life, influencing key variables such as what jobs will be available for you, how much cash you'll actually take home after taxes, or how much you can buy with that cash in any given month.

**Microeconomics** focuses on smaller economic units such as individual consumers, families, and individual businesses. Thus, microeconomics would look at how individual firms decide how much output to produce, what prices to charge, and how much labor to hire. It would also look at how consumers decide which products to buy, and why the wage rates of some workers are higher than the wages earned by other workers.

On a broader scale, the constant, changing interplay between micro and macroeconomic factors—individual behavior and broad trends—determines the shape of the entire economy.

*DIFFICULTY:*

Difficulty: Challenging

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.01

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:*

A-Head: Economics: Navigating a Crisis

*KEYWORDS:*

Bloom's: Evaluation

186. Describe the events that led up to the 2008-2009 global economic crisis.

**ANSWER:**

The events that lead up to the global economic crisis began almost a decade earlier. Even though the United States economy experienced unprecedented growth during the last half of the 1990s the situation began to change with the collapse of the dot-com bubble and the 9/11 terrorist attacks. In response to these events, the Federal Reserve dramatically increased the money supply with a sharp reduction in the interest rates. As a result, the economy was awash with money, but opportunities to invest yielded paltry returns. At this time, subprime mortgages loans came into play. Subprime mortgage loans are targeted to borrowers with low credit scores, high debt-to-income ratios, or other signs of a reduced ability to repay the money they borrow. These mortgage loans allowed hundreds of thousands of people who previously could not purchase homes to borrow money to purchase one. As demand for homes increased, home prices continued to rise creating even greater demand. Banks and investment houses invented a range of stunningly complex financial instruments to slice up and resell the mortgages as specialized securities. Hedge funds swapped the new securities, convinced that they were risk-free. With a lack of government regulation, financial institutions did not maintain sufficient reserves in case those mortgage-backed funds lost value.

Like all good times, the meteoric rise in housing prices came to an end peaking in 2006, at which time they began to fall precipitously. As housing prices depreciated, many subprime borrowers found themselves owing their lenders more than the value of their home. This led to an increase in foreclosure rates. As mortgage values dropped, financial institutions such as Bear Stearns and Washington Mutual began to collapse, creating a wave of fear that spread throughout the entire banking industry. As fear spread throughout the industry, banks became unwilling to lend money, so funds were not available for businesses to finance their day-to-day operations or invest for the long term. As credit dried up, large and small companies alike began to announce layoffs.

**DIFFICULTY:**

Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.01

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:**

A-Head: Economics: Navigating a Crisis

B-Head: Global Economic Crisis: How Did This Happen?

**KEYWORDS:**

Bloom's: Synthesis

187. Explain how fiscal and monetary policy influences the economy.

*ANSWER:*

Fiscal policy refers to government efforts to influence the economy through taxation and spending decisions that are designed to encourage growth, boost employment, and curb inflation. Clearly, fiscal strategies are closely tied to political philosophy. But regardless of politics, most economists agree that lower taxes can boost the economy by leaving more money in people's pockets for them to spend or invest. Most also agree that government spending can boost the economy in the short term by providing jobs, such as mail carrier, bridge repairer, or park ranger; and in the long term by investing in critical public assets, such as a national renewable energy grid. Done well, both taxation and spending can offer economic benefits. The tricky part is finding the right balance between the two approaches.

Monetary policy refers to actions that shape the economy by influencing interest rates and the supply of money. The Federal Reserve—essentially the central bank of the United States—manages U.S. monetary policy. For the first time in its history, the Fed has also taken an activist role in bailing out and propping up shaky financial firms during the economic crisis. Other Fed functions include banking services for member banks and the federal government.

*DIFFICULTY:*

Difficulty: Challenging

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.02

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:* A-Head: Managing the Economy Through Fiscal and Monetary Policy

*KEYWORDS:* Bloom's: Evaluation



188. Explain in detail the terms *debt ceiling* and *fiscal cliff* and their effect on the U.S. economy.

**ANSWER:**

The debt ceiling is the maximum amount Congress lets the government borrow. In theory, this is meant to limit the amount that the government can borrow, but in practice, voting on the debt ceiling happens separately from voting on taxes and spending, so the debt ceiling ends up being mostly about whether or not the Federal government can pay for debts that it has already incurred. Typically, debt ceiling hikes are fairly routine; in fact, Congress has raised the debt ceiling 74 times since 1962, and 10 times since 2001, all with little or no notice.

Congress finally agreed to raise the debt ceiling, which temporarily averted a shutdown crisis, but the deal they reached to do so created the fiscal cliff. The fiscal cliff was a package of draconian across-the-board spending cuts and sharp tax hikes scheduled to go into effect on January 1, 2013, that could dramatically decrease the U.S. budget deficit. Unfortunately, the timing of the spending cuts coincided with the timing of a package of sharp tax hikes that had been negotiated separately.

Going over the fiscal cliff could potentially cripple the U.S. economy, and possibly even cause the U.S. to default on some of its debt, which could send world markets into a tailspin. Obviously, virtually no one would benefit if the U.S. economy went over the fiscal cliff. But once again, Congress could not reach a reasonable long-term agreement, so they simply passed last minute legislation that pushed the really tough tax and spending decisions farther down the road till the U.S. hits the debt ceiling again in mid-February, 2013.

**DIFFICULTY:**

Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.02

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:**

A-Head: Managing the Economy Through Fiscal and Monetary Policy

B-Head: Debt Ceiling/Fiscal Cliff

**KEYWORDS:**

Bloom's: Evaluation

189. Identify and explain the three key tools the Federal Reserve uses to expand and contract the money supply.

**ANSWER:**

The Fed uses three key tools expand and contract the money supply:

- open market operations
- discount rate changes
- reserve requirement changes

**Open Market Operations:** This is the Fed's most frequently used tool. Open market operations involve buying and selling government securities, which include treasury bonds, notes, and bills. These securities are the IOUs the government issues to finance its deficit spending.

When the economy is weak, the Fed *buys* government securities on the open market. When the Fed pays the sellers of these securities, money previously held by the Fed is

put into circulation, increasing the money supply. This directly stimulates spending. In addition, any of the additional funds supplied by the Fed that are deposited in banks will allow banks to make more loans, making credit more readily available. This encourages even more spending and further stimulates the economy.

When inflation is a concern, the Fed *sells* securities. Buyers of the securities write checks to the Fed to pay for securities they bought, and the Fed withdraws these funds from banks. With fewer funds, banks must cut back on the loans they make, credit becomes tighter and the money supply shrinks. This reduces spending and cools off the inflationary pressures in the economy.

**Discount Rate Changes:** The discount rate is the interest rate the Fed charges on its loans to commercial banks. When the Fed reduces the discount rate, banks can obtain funds at a lower cost and use these funds to make more loans to their own customers. With the cost of acquiring funds from the Fed lower, interest rates on bank loans also tend to fall. The result: businesses and individuals are more likely to borrow money and spend it, which stimulates the economy.

**Reserve Requirement Changes:** The Fed requires that all of its member banks hold funds, called reserves, equal to a stated percentage of the deposits held by their customers. This percentage is called the reserve requirement. The reserve requirement, currently standing at about 10%, helps protect depositors, who may want to withdraw their money without notice.

If the Fed increases the reserve requirement, banks must hold more funds, meaning they will have fewer funds available to make loans. This decreases the money supply, makes credit tighter, and causes interest rates to rise. If the Fed decreases the reserve requirement, some of the funds that banks were required to hold become available for loans. This increases the availability of credit and causes interest rates to drop.

<i><b>DIFFICULTY:</b></i>	Difficulty: Challenging
<i><b>LEARNING OBJECTIVES:</b></i>	BUSN.KELL.15.02.02
<i><b>NATIONAL STANDARDS:</b></i>	United States - BUSPROG: Analytic
<i><b>TOPICS:</b></i>	A-Head: Managing the Economy Through Fiscal and Monetary Policy B-Head: Monetary Policy
<i><b>KEYWORDS:</b></i>	Bloom's: Evaluation

190. Explain the concepts of supply and demand in a free market.

*ANSWER:*

The concepts of supply and demand explain how the dynamic interaction between buyers and sellers directly affects the range of products and prices in a free market.

Supply refers to the quantity of products that producers are willing to offer for sale at different market prices. Since businesses seek to make as much profit as possible, they are likely to produce more of a product that commands a higher market price and less of a product that commands a lower price. The relationship between price and quantity from a supplier standpoint can be shown on a graph called the supply curve. The supply curve maps quantity on the x-axis and price on the y-axis. In most categories, as the price rises, the quantity produced rises correspondingly, yielding a graph that curves up as it moves to the right.

Demand refers to the quantity of products that consumers are willing to buy at different market prices. Since consumers generally seek to get the products they need or want at the lowest possible prices, they tend to buy more products with lower prices and fewer products with higher prices. The relationship between price and quantity from a demand standpoint can be shown on a graph called the demand curve. Like the supply curve, the demand curve maps quantity on the x-axis and price on the y-axis. But different from the supply curve, the demand curve for most goods and services slopes downward as it moves to the right, since the quantity demanded tends to drop as prices rise.

*DIFFICULTY:*

Difficulty: Challenging

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.03

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:*

A-Head: Capitalism: The Free Market System

B-Head: Supply and Demand: Fundamental Principles of a Free Market System

*KEYWORDS:*

Bloom's: Evaluation

## Ch. 02 Economics: The Framework for Business

191. Explain the fundamental rights of capitalism.

*ANSWER:*

The right to own a business and keep after-tax profits: Remember that capitalism doesn't guarantee that anyone will actually earn profits. Nor does it promise that there won't be taxes. But if you do earn profits, you get to keep your after-tax income and spend it however you see fit, as long as it's within the limits of the law. This right acts as a powerful motivator for business owners in a capitalist economy; the lower the tax rate, the higher the motivation.

The right to private property: This means that individuals and private businesses can buy, sell, and use property—which includes land, machines, and buildings—in any way that makes sense to them. This right also includes the right to will property to family members.

The right to free choice: Capitalism relies on economic freedom. People and businesses must be free to buy or not buy according to their wishes. They must be free to choose where to work or not work and where to live or not live. Freedom of choice directly feeds competition, creating a compelling incentive for business owners to offer the best goods and services at the lowest prices. U.S. government trade policies boost freedom of choice by encouraging a wide array of both domestic and foreign producers to compete freely for the consumer's dollars.

The right to fair competition: A capitalist system depends on fair competition among businesses to drive higher quality, lower prices, and more choices. Capitalism can't achieve its potential if unfair practices—such as deceptive advertising, predatory pricing, and broken contracts—mar the free competitive environment.

*DIFFICULTY:*

Difficulty: Challenging

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.03

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:*

A-Head: Capitalism: The Free Market System

B-Head: The Fundamental Rights of Capitalism

*KEYWORDS:*

Bloom's: Evaluation

192. Describe the four degrees of competition with examples.

**ANSWER:**

**Pure Competition:** A market structure with many competitors selling virtually identical products. In today's U.S. economy, examples of pure competition have virtually disappeared. The example of agricultural products probably comes the closest.

**Monopolistic Competition:** A market structure with many competitors selling differentiated products. Producers have some control over the price of their wares, depending on the value that they offer their customers. And new producers can fairly easily enter categories marked by monopolistic competition. Examples might include the clothing industry and fast food establishments.

**Oligopoly:** A market structure with only a handful of competitors selling products that are either similar or different. The retail gasoline business and the car manufacturing industry, for example, are both oligopolies. Another example might include the soft drink industry.

**Monopoly:** A market structure with just a single producer completely dominating the industry, leaving no room for any significant competitors. Monopolies usually aren't good for anyone except for the company that has control, since without competition there isn't any incentive to hold down prices or increase quality and choices. Because these undesirable drawbacks can harm the economy, most attempts to monopolize markets in the United States are illegal. However, the government does allow monopolies to operate in certain special cases. The classic example is a natural monopoly, such as a cable television system, water company, or electric utility. The government also fosters temporary monopolies when it grants patents or copyrights.

**DIFFICULTY:**

Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.03

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:**

A-Head: Capitalism: The Free Market System

B-Head: Four Degrees of Competition

**KEYWORDS:**

Bloom's: Evaluation

193. Define and illustrate the differences and similarities between the two key categories of planned economies.

**ANSWER:** The two key categories of planned economies are socialism and communism.

**Socialism** is an economic system based on the principle that the government should own and operate key enterprises that directly affect public welfare, such as utilities, telecommunications, and healthcare. While the official government goal is to run these enterprises in the best interest of the overall public, inefficiencies and corruption often interfere with effectiveness. Socialist economies also tend to have higher taxes, which are designed to distribute wealth more evenly through society.

**Communism** is an economic and political system that calls for public ownership of virtually all enterprises, under the direction of a strong central government. The communist concept was the brainchild of political philosopher Karl Marx, who outlined its core principles in his 1848 *Communist Manifesto*. Marx's approach was idealistic. He aimed to create a fair society in which each individual would contribute according to his or her ability and consume according to his or her needs. The communism that Marx envisioned was supposed to dramatically improve the lot of the worker at the expense of the extremely wealthy "capitalists" who owned the factories and other means of production.

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.04

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Planned Economies: Socialism and Communism

**KEYWORDS:** Bloom's: Evaluation

194. Explain why most of today's nations have mixed economies.

*ANSWER:*

In today's world, pure economies—market or planned—are practically nonexistent, since each would fall far short of meeting the needs of its citizens. A pure market economy would make insufficient provision for the old, the young, the sick, and the environment. A pure planned economy would not create enough value to support its people over the long term. Instead, most of today's nations have mixed economies, falling somewhere along a spectrum that ranges from pure planned at one extreme to pure market at the other.

Even the United States—one of the most market-oriented economies in the world—does not have a pure market economy. The various departments of the government own a number of major enterprises, including the postal service, schools, parks, libraries, entire systems of universities, and the military. In fact, the federal government is the nation's largest employer, providing jobs for more than 4 million Americans. And—although the government does not directly operate firms in the financial sector—the federal government has become part owner in a number of financial institutions as part of the recent bailouts. The government also intervenes extensively in the free market by creating regulations that stimulate competition and protect both consumers and workers. Regulations are likely to become stronger in the wake of the economic crisis.

*DIFFICULTY:*

Difficulty: Challenging

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.05

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:*

A-Head: Mixed Economies: The Story of the Future

*KEYWORDS:*

Bloom's: Evaluation

## Ch. 02 Economics: The Framework for Business

195. Explain what is gross domestic product. What are the reasons for it to be understated in an economy?

*ANSWER:*

Gross domestic product (GDP) is a measure of the total value of all final goods and services produced within a nation in a given time period. Conceptually, all goods produced within a nation's borders should be included in its GDP, even if the firm producing the output is a foreign-owned corporation. Thus, Hondas produced in the United States are included in the U.S. GDP, even though Honda is a Japanese firm. But Mattel toys produced in China are not included in U.S. GDP, even though Mattel is a U.S. corporation.

GDP tends to understate a nation's total production because it does not include output produced illegally, nor does it include the value of output that is not reported because the producer is trying to avoid paying taxes. Another major omission is the work done within households. For example, when households cook their own meals, mow their own lawns, or do their own household repairs, the value of their labor is not included in the GDP. But if they hire others to do these tasks, the value of these goods and services is included in the GDP.

*DIFFICULTY:*

Difficulty: Challenging

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.06

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:*

A-Head: Evaluating Economic Performance: What's Working?

B-Head: Gross Domestic Product

*KEYWORDS:*

Bloom's: Evaluation



196. Define unemployment rate. Identify and describe the four types of unemployment in an economy.

*ANSWER:*

The United States Department of Labor tracks employment levels largely through the **unemployment rate**, which includes everyone age 16 and older who doesn't have a job and is actively seeking one.

**Frictional unemployment** involves a worker quitting or being terminated and has a short-term impact on the economy because during normal times the worker is able to find new employment relatively quickly. It tends to be ultimately positive since the chances are good that you will find employment that is a better fit for you.

**Structural unemployment**, on the other hand, is usually longer term. This category encompasses people who don't have jobs because the economy no longer needs their skills. In the U.S., growing numbers of workers in the past decade have found themselves victims of structural unemployment as manufacturing jobs have moved overseas. Often their only option is expensive retraining.

Two other categories of unemployment are **cyclical**, which involves layoffs during recessions, and **seasonal**, which involves job loss related to the time of year. An example of seasonal unemployment is the loss of jobs by landscapers during cold winter months.

*DIFFICULTY:*

Difficulty: Challenging

*LEARNING OBJECTIVES:* BUSN.KELL.15.02.06

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*TOPICS:*

A-Head: Evaluating Economic Performance: What's Working?

B-Head: Employment Level

*KEYWORDS:*

Bloom's: Evaluation

197. What is a business cycle? Describe the different phases of a business cycle in a changing economy.

**ANSWER:** The business cycle is the periodic expansion and contraction of economic activity that occurs in a nation's economy over a period of years. One key phase of the business cycle is contraction: a period of economic downturn marked by rising unemployment, businesses cutting back on production, and consumers shifting their buying patterns to more basic products and fewer luxuries. The other key phase of the business cycle is expansion: a period of robust, economic growth marked by businesses expanding to capitalize on emerging opportunities; consumers purchase more products, which leads to more production that in turn creates more jobs. The bottom of a contraction is called a trough, while the high point of an expansion is called a peak. If a contraction results in a decline in GDP for at least two consecutive quarters, the downturn is classified as a recession. A depression is an extremely severe and long-lasting recession. Depressions are rare; the last full-blown depression in the United States occurred in the 1930s.

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: The Business Cycle

**KEYWORDS:** Bloom's: Evaluation

198. Describe the Consumer Price Index (CPI) and Producer Price Index (PPI) as measures of price changes in the economy.

**ANSWER:** The government uses two major price indexes to evaluate inflation: the **Consumer Price Index (CPI)**, and the **Producer Price Index (PPI)**.  
The CPI measures the change in weighted-average price over time in a consumer "market basket" of goods and services that the average person buys each month. The U.S. Bureau of Labor Statistics creates the basket—which includes hundreds of items such as housing, transportation, haircuts, wine, and pet care—using data from more than 30,000 consumers. While the market basket is meant to represent the average consumer, keep in mind that the "average" includes a lot of variation, so the CPI may not reflect individual personal experience. If you don't have a pet, for example, changes in veterinary costs wouldn't affect you, although they would (slightly) impact the CPI.  
The PPI measures the change over time in weighted-average wholesale prices, or the prices that businesses pay each other for goods and services. Changes in the PPI can sometimes predict changes in the CPI, because producers tend to pass on price increases (and sometimes also price decreases) to consumers within a month or two of the changes.

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What's Working?  
B-Head: Price Levels

**KEYWORDS:** Bloom's: Evaluation

199. Explain the various changes in the rate of price in an economy.

**ANSWER:** The rate of price changes across the economy is a basic measure of economic well-being. Inflation means that prices, on average, are rising. Similar to unemployment, a low level of inflation is not so bad. It reflects a healthy economy—people have money, and they are willing to spend it. But when the Federal Reserve—the nation’s central bank—manages the economy poorly, inflation can spiral out of control, which can lead to hyperinflation, when average prices increase more than 50% per month.

When the rate of price increases slows down, the economy is experiencing disinflation, which was the situation in the United States in the mid-1990s and more recently in the second half of 2008. But when prices actually decrease, the economy is experiencing deflation, typically a sign of economic trouble that goes hand-in-hand with very high unemployment. People don’t have money and simply won’t spend unless prices drop. During the Great Depression in the 1930s, the U.S. economy experienced deflation, with prices dropping 9% in 1931 and nearly 10% in 1932.

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What’s Working?  
B-Head: Price Levels

**KEYWORDS:** Bloom’s: Evaluation

200. Define and describe productivity.

**ANSWER:** Productivity refers to the relationship between the goods and services that an economy produces and the resources needed to produce them. The amount of output—goods and services—divided by the amount of input equals productivity. The goal, of course, is to produce more goods and services, using fewer hours and other inputs. A high level of productivity typically correlates with healthy GDP growth, while low productivity tends to correlate with a more stagnant economy.

Over the past couple of decades, the United States has experienced strong productivity growth, due largely to infusions of technology that help workers produce more output, more quickly. But keep in mind that that productivity doesn’t measure quality. That’s why it’s so important to examine multiple measures of economic health rather than relying on simply one or two dimensions.

**DIFFICULTY:** Difficulty: Challenging

**LEARNING OBJECTIVES:** BUSN.KELL.15.02.06

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**TOPICS:** A-Head: Evaluating Economic Performance: What’s Working?  
B-Head: Productivity

**KEYWORDS:** Bloom’s: Evaluation