TT TEXTBOOK TESTBANKS

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Business Essentials, 14e, (Ebert)
Chapter 1 The U.S. Business Environment

1) Which of the following best describes profit?
A) Total money taken in by a corporation
B) Increases in income from year to year
C) Increases in a corporation's stock price
D) Revenue generated by goods and services
E) Difference between revenues and expenses
Answer: E
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

2) Which of the following describes where a firm conducts its operations and derives its revenues?
A) Global business environment
B) Economic environment
C) Domestic business environment
D) Technological environment
E) Political-legal environment
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

3) At a general level factors such as international trade agreements, economic conditions, and political unrest will have the greatest impact in which type of business environment?
A) Global business environment
B) Economic environment
C) Domestic business environment
D) Technological environment
E) Political-legal environment
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

4) Changes in which type of business environment can reduce or replace the need for traditional working methods, physical equipment, and other platforms needed to conduct business?
A) Global business environment
B) Economic environment
C) Domestic business environment
D) Technological environment
E) Political-legal environment
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

5) As a teenager, Melinda started cutting grass for her neighbor. She did a good job, and more and more neighbors began to hire her. After saving money and investing in additional equipment, Melinda began to earn an even greater profit. Which of the following did Melinda create when she began cutting her neighbor's yard and earning income?
A) Nonprofit
B) Corporate culture
C) Market economy
D) Monopolistic competition
E) Business
Answer: E
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

6) When choosing how to pursue profits, what should be the primary consideration for a business?
A) Consumers wants or needs
B) How much product to produce
C) Creating the most innovations and opportunity
D) How to compete in the global marketplace
E) Changing demographics in the community
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

7) Which of the following consists of everything outside an organization's boundaries that might affect how the business operates?
A) Opportunities and enterprise
B) Corporate culture
C) External environment
D) Economic systems
E) Factors of production
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

8) When Aimee opened her retail shop in her local community, she worked to establish strong relationships with suppliers and customers, and distinguished her shop from the competition. In which environment is Aimee doing business?
A) Global
B) Political-legal
C) Domestic
D) Economic
E) Technological
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

9) The Basic Broom Company orders much of its raw material from overseas markets, even though the product is made locally. How might changes in the global business environment impact the company?
A) It may not be able to get raw material when needed.
B) It may have a hard time keeping up with technological changes.
C) It may not fully understand the wants and needs of customers.
D) It may face changes in the factors of production.
E) It may be challenged by changes in the labor force.
Answer: A
Difficulty: Challenging
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

10) Which of the following includes all the ways a firm creates value for their customers?
A) Technological environment
B) Profitability
C) Economic environment
D) Creation of a market economy
E) Law of supply and demand
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

11) Sally's Supply shop has recently had to change the process for shipping supplies because of changes in government regulations. Sally's Supply now also has to change how the shop reports profit and loss, and when those reports are processed. Which of the following is forcing these changes for Sally's Supply shop?
A) The laws of supply and demand
B) Political-legal environment
C) The establishment of perfect competition
D) Changes in the market economy
E) Economic environment
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

12) A new restaurant recently opened in the local community. It serves a variety of multicultural foods in order to appeal to a wide variety of customers, based on the local demographic characteristics of the community. Which external environment of business is this restaurant considering when they support the customs, values, and demographics of the local community?
A) Monopoly
B) Sociocultural
C) Freedom of choice
D) Perfect competition
E) Global
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

13) Which of the following include relevant conditions that exist in the economic system where a company operates, such as wage rates, number of people looking for jobs, and competition?
A) Global business environment
B) Technological environment
C) Political-legal environment
D) Sociocultural environment
E) Economic environment
Answer: E
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

14) Which of the following business environments includes the customers, mores, values, and demographic characteristics of the society where the organization functions?
A) Sociocultural
B) Technological
C) Political-legal
D) Fiscal
E) Economic
Answer: A
Difficulty: Challenging
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

15) The pursuit of profits is how a business differs from organizations such as public universities, public hospitals, and government agencies.
Answer: TRUE
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

16) An organization's external environment consists of everything outside of the organization that might affect it.
Answer: TRUE
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

17) Businesses improve society by improving the quality of life in a society.
Answer: TRUE
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

18) The internal environment of an organization plays a greater role in determining the success or failure of a business than the external environment.
Answer: FALSE
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

19) The customs, values, and demographic characteristics of the society in which an organization functions are the principal elements of the political-legal environment.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

20) The technological environment consists primarily of electronics, processing systems, and telecommunications used to perform business activities.
Answer: FALSE
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Application of knowledge
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

21) Compare a sociocultural environment to an economic environment.
Answer: The sociocultural environment includes the customs, mores, values, and demographic characteristics of the society in which an organization functions. Sociocultural processes also determine the goods and services, as well as the standards of business conduct, that a society is likely to value and accept. The economic environment refers to relevant conditions that exist in the economic system in which a company operates. For example, if an economy is doing well enough that most people have jobs and wages are high, a growing company may find it necessary to pay even higher wages and offer more benefits to attract workers from other companies. But if many people in an economy are looking for jobs, a firm may be able to pay less and offer fewer benefits.
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Critical thinking
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

22) Describe the domestic business environment.
Answer: The domestic business environment refers to the environment in which a firm conducts its operations and derives its revenues. In general, businesses seek to be close to their customers, to establish strong relationships with their suppliers, and to distinguish themselves from their competitors.
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

23) How do consumer choice and demand affect a capitalistic system?
Answer: In a capitalistic system, such as that in the United States, businesses exist to earn profits for owners. Within certain broad constraints, an owner is free to set up a new business, grow that business, sell it, or even shut it down. But consumers also have freedom of choice. In choosing how to pursue profits, businesses must take into account what consumers want or need. No matter how efficient a business is, it won't survive if there is no demand for its goods or services.
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

24) What are the benefits of business for society?
Answer: Businesses produce most of the goods and services we consume, and they employ most working people. They create most innovations and provide a vast range of opportunities for new businesses, which serve as their suppliers. A healthy business climate also contributes to the quality of life and standard of living of people in a society. Business profits enhance the personal incomes of millions of owners and stockholders, and business taxes help to support governments at all levels. Many businesses support charities and provide community leadership.
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.1: Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

25) What is the general term for resources used by a business to produce a good or service referred to as?
A) Private enterprise
B) Human Resources
C) Supply and demand
D) Factors of production
E) Economic systems
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

26) Which of the following denotes a nation's basis for allocating its resources among its citizens, including individuals and organizations?
A) Capital structure
B) Economic system
C) Ownership processes
D) Distribution network
E) National regulations
Answer: B
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

27) Which of the following is the process for converting government enterprises into individually owned firms?
A) Production allocation
B) Privatization
C) Entrepreneurship
D) Demand assessment
E) Profit maximization
Answer: B
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

28) Which is the term for the physical and intellectual contributions of people while engaged in economic production?
A) Human resources
B) Working capital
C) Entrepreneurship
D) Information systems
E) Market resources
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

29) Who is described as the person who accepts the risks and opportunities inherent in creating a new business opportunity?
A) Capital managers
B) Entrepreneurs
C) Human resources
D) Home country economic systems managers
E) Information technology managers
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

30) Which factor of production is used to generate forecasts based on specialized knowledge and economic data?
A) Economic resources
B) Labor
C) Information resources
D) Entrepreneurs
E) Physical resources
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

31) Which type of economic system depends on individual producers and consumers to create a combination of supply and demand?
A) Planned
B) Pure
C) Privatized
D) Market
E) Socialist
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Analytical thinking
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

32) The idea that individuals would contribute according to their abilities and receive benefits according to their needs supports which type of economy?
A) Market
B) Socialist
C) Mixed market
D) Capitalist market
E) Communist
Answer: E
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

33) Why is the United States considered a mixed market economy?
A) Entrepreneurship is encouraged through profits as an incentive.
B) There is private ownership of factors of productions.
C) It has characteristics of both planned and market economies.
D) The government controls major industries.
E) Individuals are free to buy what they need and spend profit in whatever manner they choose.
Answer: C
Difficulty: Challenging
AACSB: Analytical thinking
Question Category: Critical thinking
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

34) What does a planned economy rely on a centralized government to do?
A) Support free enterprise in every way possible
B) Determine how to allocate all or most factors of production
C) Encourage citizens to buy shares of stock in small companies
D) Keep its control activities to a minimum
E) Direct workers to start their own small businesses
Answer: B
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Critical thinking
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

35) Which economic system emphasizes the private ownership of most factors of production?
A) Socialism
B) Communism
C) Capitalism
D) Marxism
E) Mixed
Answer: C
Difficulty: Easy
AACSB: Analytical thinking
Question Category: Critical thinking
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

36) In which type of economy do the individual producer and consumer control production through supply and demand?
A) Planned
B) Communist
C) Market
D) Socialist
E) Mixed
Answer: C
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Critical thinking
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

37) Which of the following marks the key difference between economic systems?
A) The way the factors of production are managed
B) The way goods are transported within their borders
C) The way rules and regulations are legislated
D) The way workers are relocated to different regions
E) The way basic necessities are determined
Answer: A
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Analytical thinking
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

38) Which of the following represents the financial resources needed to operate a business?
A) Factors of production
B) Profit
C) Economic systems
D) Supply and demand
E) Capital
Answer: E
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

39) Karmel has ordered new computers and office equipment of her tax preparation business. She is also considered renting a larger office for next year. How would the new computers and office equipment Karmel needs and uses to operate her business be classified as?
A) Technological environment
B) Private property
C) Business cycle
D) Physical resources
E) Capital
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

40) Which of the following refers to a reliance on a centralized government to allocate most factors of production?
A) Market economy
B) Global business environment
C) Information resources
D) Planned economy
E) Sociocultural environment
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

41) Which of the following do most countries rely on in terms of economic systems?
A) Mixed market
B) Privatization
C) Market
D) Capitalism
E) Communism
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

42) Which of the following is a mechanism for exchange between buyers and sellers of specific goods or services?
A) Market
B) Entrepreneurship
C) Communism
D) Capitalism
E) Free enterprise
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

43) Which of the following does a market economy depend on?
A) Profits
B) Freedom of choice
C) Economic restrictions
D) Competition
E) Privatization
Answer: B
Difficulty: Challenging
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

44) Which of the following is the economic basis of the market process?
A) Profit and loss
B) Supply and demand
C) Planned and market economies
D) Labor and capital
E) Physical and technological resources
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

45) Which of the following is the underlying premise of a market economy?
A) A matured society
B) Direct ownership of factors of production
C) Creation of shared value
D) Centralized government
E) A political basis of the market process
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

46) Which of the following is the political basis of the market economy process?
A) Communism
B) Socialism
C) Capitalism
D) Privatization
E) Centralized government
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

47) In which planned economic systems does the government own and operate selected major industries and sources of production?
A) Market
B) Privatization
C) Socialism
D) Communism
E) Capitalism
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

48) Physical resources include the data and other information used by businesses.
Answer: FALSE
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

49) One major difference between economic systems is the way in which a system manages its factor of production.
Answer: TRUE
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

50) In a market system, individuals are free to choose what they buy and how they can spend their money.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

51) China functions as a communistic economy and political system.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

52) In a market economy, there is a centralized government that controls factors of production and decision making.
Answer: FALSE
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Application of knowledge
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

53) Discuss the two forms of planned economies and give examples of each.
Answer: There are two basic forms of planned economies: communism and socialism. Communism is a system in which the government owns and operates all factors of production. Under such a system, the government would assign people to jobs. It would also own all business and control business decisions—what to make, how much to charge, and so forth. Marx proposed that individuals would contribute according to their abilities and receive benefits according to their needs. He also expected government ownership of production factors to be temporary. Once society had matured, government would wither away, and workers would take direct ownership of the factors of production. Today, North Korea, Vietnam, Laos, Cuba and the People's Republic of China are the only nations remaining that are controlled with openly communist systems parties. In the partially planned system called socialism, the government owns and operates selected major industries. In such mixed market economies, the government may control banking, transportation, or industries producing basic goods such as oil and steel. Smaller businesses, such as clothing stores and restaurants are privately owned. Many Western European countries, including England and France, allow free market operations in most economic areas but keep government control of others, such as health care.
Difficulty: Challenging
AACSB: Application of knowledge
Question Category: Critical thinking
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

54) Describe the role of information resources in business.
Answer: The production of tangible goods once dominated most economic systems. Today, information resources, data and other information used by businesses play a major role. Information resources that businesses rely on include market forecasts, the specialized knowledge of people, and economic data. In turn, much of what businesses do with the information results either in the creation of new information or the repackaging of existing information for new users.
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

55) Compare a planned economy to a market economy.
Answer: Economic systems also differ in the ways decisions are made about production and allocation. A planned economy relies on a centralized government to control all or most factors of production and to make all or most production and allocation decisions. In a market economy, individual producers and consumers control production and allocation by creating combinations of supply and demand.
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

56) Identify the five factors of production and their role in economic systems.
Answer: An economic system is a nation's system for allocating its resources among its citizens, both individuals and organizations. Economists have long focused on four factors of production: labor, capital, entrepreneurs, and physical resources. In addition to these traditional four factors, many economists now include information resources. People who work for businesses provide labor. Labor, sometimes called human resources or human capital, includes the physical and intellectual contributions people make while engaged in economic production. Capital includes the financial resources needed to operate a business. An entrepreneur is a person who accepts the risks and opportunities entailed in creating and operating a new business. Physical resources are the tangible things that organizations use to conduct their business. They include natural resources and raw materials, offices, storage and production facilities, parts and supplies, computers and peripherals, and a variety of other equipment. Information resources include data and other information used by businesses. Information resources that businesses rely on include market forecasts, the specialized knowledge of people, and economic data.
Difficulty: Challenging
AACSB: Application of knowledge
Question Category: Synthesis
LO: 1.2: Describe the different types of global economic systems according to the means by which they control the factors of production.

57) What is the point at which the supply curve and the demand curve intersect on a graph?
A) Equilibrium price
B) Decision point
C) Surplus price
D) Perfect price
E) Parity point
Answer: A
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

58) When demand and supply curves are plotted on the same graph, at which point will they intersect?
A) When perfect competition is reached
B) When monopolistic competition is eliminated
C) At market price
D) At optimum price
E) As shortages occur
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

59) Which of the following occurs when the quantity demanded exceeds the quantity supplied?
A) Demand deficit
B) Surplus
C) Equilibrium point
D) Shortage
E) Price drop
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

60) On an economic level, what are the primary force that determines what a firm buys and sells?
A) Laws of supply and demand
B) The demand and supply schedule
C) Economic resources
D) Equilibrium price
E) The private enterprise system
Answer: A
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

61) Which of the following is the willingness and ability of producers to offer a good for sale referred to as?
A) Competition
B) Supply
C) Planned economy
D) Equilibrium
E) Demand
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

62) Which of the following is proven when buyers purchase more of a product when the price drops and less when the price increases?
A) Equilibrium
B) Law of supply
C) Law of demand
D) Degree of competition
E) Free market economy
Answer: C
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Application of knowledge
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

63) How can a business determine relationships among different levels of demand and supply, based on price?
A) Using market economies
B) Using degrees of competition
C) Using surplus to shortage relationships
D) Using demand and supply curves
E) Using private enterprise competition
Answer: D
Difficulty: Easy
AACSB: Analytical thinking, Application of knowledge
Question Category: Application of knowledge
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

64) Why is the private enterprise system important in a market economy?
A) It provides an ability to pursue an interest with minimal government restriction.
B) It provides an ability to limit profits on competitors based on government restriction.
C) It allows a firm to offer a good or service at a variety of price points.
D) It limits the number of competitors the government will allow within a specific geographic region.
E) It controls the ability of smaller firms in an industry to exert undue influence in the market.
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

65) Which of the following represents individual ownership of resources used in a private enterprise system?
A) Freedom of choice
B) Private property rights
C) Increased profits
D) Limited competition
E) Perfect competition
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

66) Which of the following would lead some to become an entrepreneur and influence the choice of goods or services to produce?
A) Competition
B) Profit
C) Degrees of competition
D) Government regulation
E) Monopolistic competition
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Analytical thinking
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

67) What is needed to gain a competitive advantage over competitors?
A) The ability to produce goods and services and sell those at a fixed profit
B) The ability to produce goods and services and sell those at a small profit
C) The ability to convince consumers that products are better or less expensive than competitors
D) The ability to leverage the internet to sell in a global marketplace
E) The ability to have a good or service that can be easily duplicated by competitors
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

68) When there are many small firms in a specific industry, what is likely to occur?
A) Competitive advantage
B) An oligopoly
C) Private enterprise
D) Perfect competition
E) Market force reliability
Answer: D
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Analytical thinking
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

69) What is created when one company can most efficiently supply all the goods or services needed by the marketplace?
A) Communism
B) Natural monopolies
C) Marketplace shifts
D) Monopolistic competition
E) Oligopolies
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

70) Which of the following is one of the elements required in private enterprise?
A) Adequate representation in the government
B) Freedom from foreign competition
C) The opportunity for market leadership
D) The right to ownership of property
E) Numerous regulatory agencies
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

71) In perfect competition, which of the following conditions must prevail?
A) All firms must adhere to cost and pricing standards.
B) The number of firms in the industry must be limited.
C) A single firm is able to influence the price of its product.
D) It is relatively difficult to enter the industry.
E) All firms in a given industry must be small.
Answer: E
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Critical thinking
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

72) In an oligopoly, when one firm reduces its prices, how do other sellers typically react?
A) There is no reaction from other firms to change their prices.
B) Other firms reduce their prices also, usually quite quickly.
C) Other firms may focus on quality rather than price.
D) Other firms begin to limit production to increase demand.
E) There is a combined response from other firms to stabilize prices.
Answer: B
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Critical thinking
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

73) What is the term used to describe a market condition where buyers are able to satisfy the demand of the consumer, yet have some product remain unsold?
A) Surplus
B) Stoppage
C) Shortage
D) Demand deficit
E) Equilibrium price
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

74) When a new product has high demand in the market, how should a company react?
A) Increase the supply of the product
B) Decrease the supply of the product
C) Reduce the price of the product
D) Maintain the current supply until demand falls
E) Create an artificial shortage of the product
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

75) Mario's Pizza is a very successful pizza shop just off campus. Mario has noticed that as soon as the fall semester starts, he sells twice as many pizzas as he does during summer months. Which aspect of a market economy is Mario experiencing?
A) Demand
B) Choice
C) Supply
D) Competition
E) Private enterprise
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

76) Tommey started his own t-shirt shop, and sold his shirts at very competitive prices. As his products became well-known he began selling them out of the local area, and on-line. Based on the law of supply, what will likely happen to the prices that Tommey charges for his t-shirts?
A) Prices will rise
B) Prices will fall
C) Prices will stay the same
D) Prices will fluctuate depending on where the shirts are sold
E) Prices will decrease only on those sold online
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

77) Which economic principle says producers will offer more of a product for sale as its price rises, and less as its price drops?
A) The law of demand
B) Equilibrium
C) Market pricing
D) Freedom of choice
E) The law of supply
Answer: E
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

78) In which way can a producer of a product assess the relationship among different levels of demand and supply, at different price levels?
A) Using demand curves
B) Determining competition in the market
C) Analyzing aggregate output
D) Using demand and supply schedules
E) Calculating gross domestic product
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

79) Which of the following will show how many units of a product should be supplied at different prices?
A) Demand curve
B) Parity
C) Supply curve
D) Productivity
E) Aggregate output
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

80) Which of the following occurs when two or more business compete for the same resources or customers?
A) Shortage
B) Competition
C) Demand fluctuation
D) Perfect competition
E) Decreased aggregate output
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

81) In which form of competition are prices set exclusively by supply and demand, and accepted by both sellers and buyers?
A) Monopolistic competition
B) Balance of trade
C) Economic stability
D) Purchasing power parity
E) Perfect competition
Answer: E
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

82) In an effort to distinguish themselves from competitors, Healthy Gym began offering fitness classes designed for retirees in the morning, and high energy cycling classes during evening hours. Which degree of competition, includes a large number of buyers and sellers, does Healthy Gym compete in?
A) Monopolistic competition
B) Perfect
C) Oligopoly
D) Monopoly
E) Natural monopoly
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

83) Which type of competition includes relatively few but large sellers who have the power to influence the prices of their products and significantly affect the sales of every other firm in the industry?
A) Perfect competition
B) Parity
C) Balance of trade
D) Natural monopoly
E) Oligopoly
Answer: E
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

84) The laws of supply and demand are used to determine decisions about what to buy and sell.
Answer: TRUE
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Analytical thinking
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

85) Economic systems differ in how factors of production are used.
Answer: TRUE
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Analytical thinking
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

86) The point at which the supply curve and the demand curve intersect is the market price.
Answer: TRUE
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

87) One of the four elements that are necessary for private enterprise to be carried out is reasonable prices.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

88) Product differentiation is common in a market characterized by monopolistic competition.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

89) In a natural monopoly, prices tend to be government regulated.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

90) What is function of the laws of demand and supply?
Answer: On all economic levels, decisions about what to buy and what to sell are determined primarily by the forces of demand and supply. Demand is the willingness and ability of buyers to purchase a product (a good or a service). The law of demand says buyers will purchase (demand) more of a product as its price drops and less as its price increases. Supply is the willingness and ability of producers to offer a good or service for sale. The law of supply says producers will offer (supply) more of a product for sale as its price rises and less of a product as its price drops.
Difficulty: Challenging
AACSB: Application of knowledge
Question Category: Synthesis
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

91) What is required for perfect competition to exist, and what principles must be in place to achieve those conditions?
Answer: For perfect competition to exist, two conditions must prevail: (1) all firms in an industry must be small, and (2) the number of firms in the industry must be large. Under these conditions, no single firm is powerful enough to influence the price of its product. Prices are, therefore, determined by such market forces as supply and demand. There are four principles that support the two conditions. The products of each firm are so similar that buyers view them as identical to those of other firms. Both buyers and sellers know the prices that others are paying and receiving in the marketplace. Because each firm is small, it is easy for firms to enter or leave the market. Going prices are set exclusively by supply and demand and accepted by both sellers and buyers.
Difficulty: Challenging
AACSB: Application of knowledge
Question Category: Synthesis
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

92) Discuss each of the four principles of private enterprise systems.
Answer: Market economies rely on a private enterprise system—one that allows individuals to pursue their own interests with minimal government restriction. In turn, private enterprise requires the presence of four elements: private property rights, freedom of choice, profits, and competition. Ownership of the resources used to create wealth is in the hands of individuals. You can sell your labor to any employer you choose. You can also choose which products to buy, and producers can choose whom to hire and what to produce. The lure of profits (and freedom) leads some people to abandon the security of working for someone else and to assume the risks of entrepreneurship. Anticipated profits also influence individuals' choices of which goods or services to produce. If profits motivate individuals to start a business, competition motivates them to operate those businesses efficiently. Competition occurs when two or more businesses vie for the same resources or customers.
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Synthesis
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

93) How can price be best determined by an organization?
Answer: The demand and supply schedule can be used to construct demand and supply curves. A demand curve shows how many products will be demanded at different prices. A supply curve shows how many of the items will be supplied at different prices. Demand increases as price decreases; supply increases as price increases. When demand and supply curves are plotted on the same graph, the point at which they intersect is the market price (also called the equilibrium price), the price at which the quantity of goods demanded and the quantity of goods supplied are equal.
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Analytical thinking
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

94) Explain the impact of competition on the private enterprise system.
Answer: Market economies rely on a private enterprise system–one that allows individuals to pursue their own interests with minimal government restriction. In turn, private enterprise requires the presence of four elements: private property rights, freedom of choice, profits, and competition. Competition occurs when two or more businesses vie for the same resources or customers. To gain an advantage over competitors, a business must produce its goods or services efficiently and be able to sell at a reasonable profit. To achieve these goals, it must convince customers that its products are either better or less expensive than those of its competitors. To achieve these goals, it must convince customers that its products are either better or less expensive than those of its competitors.
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Critical thinking
LO: 1.3: Show how markets, demand, and supply affect resource distribution in the United States; identify the elements of private enterprise; and explain the various degrees of competition in the U.S. economic system.

95) Which of the following offers statistical information, used by experts to assess the strength and performance of an economy?
A) Market price reports
B) Supply curves
C) Economic indicators
D) Demand curves
E) Degrees of competition reports
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

96) How is the total value of all goods and services produced by a country within a given period measured, regardless of where factors of production are located?
A) Standard of living
B) Aggregate output
C) Gross national product
D) Output per capita
E) Inflation rates
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

97) What term do economists use for the pattern of short-term expansions and contractions in the economy?
A) Business cycle
B) Aggregate output
C) Standard of living
D) Consumer price index
E) Purchasing power parity
Answer: A
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

98) Which indicator refers to the total quantity of goods and services produced by an economic system during a given period?
A) The business cycle
B) Aggregate output
C) Gross domestic product
D) The consumer price index
E) Gross national product
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

99) Which type of government economic policy includes both fiscal and monetary policy, used to smooth out fluctuations in output and unemployment?
A) Trade
B) Employment
C) Stabilization
D) Tax
E) Foreign
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

100) How would supply affect the aggregate output of an economy?
A) Supply would decrease aggregate output.
B) Increases in both would cause inflation.
C) Aggregate output would grow as supply grows.
D) Supply would have no direct effect on aggregate output.
E) Aggregate output would increase the money supply.
Answer: C
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Analytical thinking
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

101) How is the consumer price index used when considering economic stability?
A) It measures the average wage rate for a given region.
B) It shows the economic performance of key consumer product companies.
C) It measures the changes in the cost of consumer products over time.
D) It calculates the percentage of consumers in the total population looking for work.
E) It identifies the number of price increases within a given period of time.
Answer: C
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Critical thinking
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

102) Which of the following is a likely cause of increased prices for products, decreased purchasing power, and decreased profit margins?
A) Low unemployment
B) Stagnant wages
C) Declining living standards
D) Cyclical inflation
E) Limited credit
Answer: A
Difficulty: Challenging
AACSB: Reflective thinking
Question Category: Analytical thinking
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

103) How is the population impacted by an increase in aggregate output?
A) Purchasing power declines
B) Output per capita increases
C) Standard of living decline
D) Gross national product contracts
E) Real GDP stagnates
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

104) Which term refers to the total quantity and quality of goods and services that people living in an economic system can purchase?
A) Business cycle supply
B) Demand and supply schedule
C) Standard of living
D) Aggregate output
E) Consumer price index
Answer: C
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

105) Which term refers to the total value of all goods and services produced within a given period by a national economy through domestic factors of production?
A) Output per capita
B) Aggregate output
C) Gross domestic product
D) Gross national product
E) Purchasing power parity
Answer: C
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

106) Which of the following is measured by productivity?
A) The total value of all goods and services produced by a national economy
B) How much a system produces with the resources needed to produce it
C) How much output is necessary to produce a certain level of demand
D) The standard of living relative to purchasing power parity
E) How much gross national product results from inputs of labor
Answer: B
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

107) What is the economic condition characterized by widespread increased prices without increased purchasing power?
A) Unemployment
B) Inflation
C) Expansion
D) Deflation
E) Recession
Answer: B
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Critical thinking
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

108) What is the condition in an economic system in which the amount of money available, and the number of goods and services produced, are growing at about the same rate?
A) Unemployment
B) Stability
C) Deflation
D) Inflation
E) Oversupply
Answer: B
Difficulty: Easy
AACSB: Application of knowledge
Question Category: Critical thinking
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

109) Which of the following is represented by nominal GDP?
A) Total quantity of goods and services produced by an economic system.
B) Total value of all goods and services produced within a given period by a national economy, with all components valued at current prices.
C) Total value of all goods and services produced within a given period by a national economy regardless of where the factors of production are located.
D) Total value of all goods and services produced within a given period by a national economy, adjusted to account for changes in currency values and price changes.
E) Total quantity of goods and services that are imported within a given period of time.
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

110) Why does standard of living only increases through productivity?
A) The more goods that are available, the lower prices will be.
B) More goods are available without having to come by additional resources.
C) Productivity increases the money supply in an economy.
D) Purchasing power increases when there is more consumer choice.
E) Prices are determined by the standard of living.
Answer: A
Difficulty: Challenging
AACSB: Reflective thinking
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

111) Why should a government be concerned about its country carrying a trade deficit?
A) A trade deficit means that the country's productivity is low.
B) A trade deficit means local companies do not have enough competition.
C) A trade deficit ties up money that could be used for economic growth.
D) A trade deficit decreases demand for goods overall.
E) A trade deficit means that consumers do not have enough purchasing power.
Answer: C
Difficulty: Moderate
AACSB: Reflective thinking
Question Category: Analytical thinking
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

112) Which of the following is an indication of national economic growth, shown by measuring aggregate output?
A) Gross domestic product
B) Standard of living
C) Economic indicators
D) Gross national product
E) Real growth rate
Answer: A
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

113) When gross domestic product increases, what is the outcome for economic growth?
A) National economic growth will increase
B) The nation will experience a slowdown in economic growth
C) Aggregate output will decrease
D) Growth will remain steady when compared to developing nations
E) Growth will decline based on the value of the national currency
Answer: A
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

114) When economists measure gross national product, what is being measured within a specific time period, regardless of location?
A) The aggregate output
B) The economic growth of the nation
C) The growth of domestic factors of production
D) The growth rate adjusted for inflation
E) The total value of all goods and services
Answer: E
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

115) Why is gross national product (GNP) considered to be a less valuable indicator of domestic economic performance than gross domestic product (GDP)?
A) GNP does not consider where the economic performance was located.
B) GNP only considers economic performance within the United States.
C) GNP is not adjusted for inflation.
D) GNP does not consider currency fluctuations at the time of product purchase.
E) GNP does not compare output to population rates.
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Analytical thinking
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

116) What is the amount of money that a government owes its creditors referred to as?
A) GDP
B) National debt
C) Consumer price index
D) Inflation rate
E) GNP
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

117) Which of the following supports the idea that the prices of similar products in different countries should be about the same?
A) Standard of living
B) Real growth rate
C) Purchasing power parity
D) Trade deficit
E) Balance of trade
Answer: C
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Application of knowledge
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

118) Why is it important to calculate purchasing power parity in the global market?
A) It indicates how much consumers will pay for goods and services.
B) It determines interest rates on short-term debt.
C) It identifies how much the nominal GDP should be adjusted.
D) It helps companies determine standards of living around the globe.
E) It indicates the level of disposable income in developed nations.
Answer: D
Difficulty: Moderate
AACSB: Analytical thinking
Question Category: Analytical thinking
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

119) Which of the following is calculated by dividing the total gross domestic product by the total population?
A) GDP per capita
B) Real growth rate
C) Real GDP
D) Purchasing power parity
E) Standard of living
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

120) Why do companies consider purchasing power parity when pricing goods and services for international markets?
A) It measures economic performance for international workers
B) It indicates what people can actually buy in their respective economic system
C) It shapes the balance of trade between nations
D) It prevents inflation
E) It enforces compliance with monetary policies in the home country
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

121) Which of the following is the economic value of all products that a country exports minus the economic value of all the products it imports?
A) National debt
B) Gross domestic product
C) Balance of trade
D) GDP per capital
E) Gross national product
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

122) Which of the following occurs when a country exports more than it imports?
A) Recession
B) Negative balance of trade
C) Economic stability
D) Positive balance of trade
E) Inflation
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

123) Why is the United States considered to be a debtor nation?
A) It has a positive balance of trade
B) It imposes tariffs on some trade
C) The GDP is higher than that of trade partners
D) It exports more than it imports
E) It has a trade deficit
Answer: E
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

124) Which of the following is an outcome of deflation?
A) Instability
B) Economic growth
C) Decreasing unemployment
D) Positive balance of trade
E) Shrinking economy
Answer: E
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

125) Which of the following indicates the level of joblessness among people who are actively seeking work in an economic system?
A) Parity
B) Deflation
C) Balance of trade
D) Unemployment
E) Inflation
Answer: D
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

126) Which of the following is a period during which aggregate output, as measured by real GDP, declines?
A) Stagflation
B) System-wide economic disorder
C) Recession
D) Deflation
E) Inflation
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

127) Which of the following is used by a government to determine how it collects and spends revenue?
A) Deflation
B) Fiscal policies
C) National debt
D) Monetary policy
E) Stabilization policy
Answer: B
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

128) Which of the following is used by a government to control the size of its money supply?
A) Monetary policy
B) Inflation
C) Stabilization policy
D) Trade deficits
E) Gross domestic product
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

129) Aggregate output refers to a company's annual production of goods or services.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

130) The United States government manages the collection and spending of its revenues through monetary policy.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

131) The primary measure of growth in the business cycle is inflation.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

132) Inflation results in increased purchasing power for the consumer.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Critical thinking
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

133) Tax increases and decreases are a form of fiscal policy.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

134) The government can influence the availability of capital through the use of the Federal Reserve System.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

135) Stabilization policy is made up of both monetary and fiscal policy.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

136) The main measure of growth in the business cycle is aggregate output.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Critical thinking
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

137) Deflation, an indication that the economy is contracting, is characterized by price stabilization of goods.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Critical thinking
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

138) If productivity increases, prices charged to consumers will tend to increase as well.
Answer: FALSE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Critical thinking
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

139) In the United States, the Federal Reserve System, which is the nation's central bank, can influence the ability and willingness of banks to lend money.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

140) Discuss the fiscal and monetary goals of a stabilization policy.
Answer: Fiscal policy and monetary policy make up stabilization policy—government economic policy in which the goal is to smooth out fluctuations in output and unemployment and to stabilize prices. The various government interventions, such as financial bailouts, represent strategies to restore economic stability.
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

141) Explain the types of policies used by the U.S. government to manage the U.S. economy.
Answer: The government acts to manage the U.S. economic system through two sets of policies: fiscal and monetary. It manages the collection and spending of its revenues through fiscal policies. Tax rates, for example, can play an important role in fiscal policies helping to manage the economy. Monetary policies focus on controlling the size of the nation's money supply. Working primarily through the Federal Reserve System (the nation's central bank, often referred to simply as "the Fed"), the government can influence the ability and willingness of banks throughout the country to lend money.
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Concept
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

142) What is the difference between an economic recession and an economic depression?
Answer: To determine whether an economy is going through a recession, start by measuring aggregate output. This is the function of real GDP which is found by making necessary adjustments to the total value of all goods and services produced within a given period by a national economy through domestic factors of production. A recession is more precisely defined as a period during which aggregate output, as measured by real GDP, declines. Most economists agree that the U.S. economy went into recession in 2008. Most also agree that we were gradually emerging from that recession in 2011. A prolonged and deep recession is a depression.
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

143) How does unemployment affect economic stability?
Answer: Unemployment is the level of joblessness among people actively seeking work in an economic system. When unemployment is low, there is a shortage of labor available for businesses to hire. As businesses compete with one another for the available supply of labor, they raise the wages they are willing to pay. Higher labor costs eat into profit margins; they raise the prices of their products. Although consumers have more money to inject into the economy, this increase is often undone by higher prices, so purchasing power declines.
Difficulty: Challenging
AACSB: Application of knowledge
Question Category: Synthesis
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

144) Discuss the balance of trade in the United States and how it affects debt.
Answer: A country's balance of trade is the economic value of all the products that it exports minus the economic value of its imported products. A positive balance of trade results when a country exports (sells to other countries) more than it imports (buys from other countries). A negative balance of trade results when a country imports more than it exports. A negative balance of trade is commonly called a trade deficit. The United States is a debtor nation rather than a creditor nation. Trade deficit affects economic growth because the amount of money spent on foreign products has not been paid in full. Therefore, it is borrowed money and borrowed money costs more in the form of interest. The money that flows out of the country to pay off the deficit can't be used to invest in productive enterprises, either at home or overseas.
Difficulty: Challenging
AACSB: Analytical thinking
Question Category: Synthesis
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

145) How does the amount of national debt influence the bond market in the United States?
Answer: Although taxes are the most obvious way the government raises money, the government also sells bonds—securities through which it promises to pay buyers certain amounts of money by specified future dates. These bonds are attractive investments because they are extremely safe. The U.S. government is not going to default on them (that is, fail to make payments when due). Even so, they must also offer a decent return on the buyer's investment, and they do this by paying interest at a competitive rate. By selling bonds, therefore, the U.S. government competes with every other potential borrower for the available supply of loanable money. The more money the government borrows, the less money is available for the private borrowing and investment that increase productivity.
Difficulty: Challenging
AACSB: Analytical thinking
Question Category: Synthesis
LO: 1.4: Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

146) Why is information technology becoming increasingly valuable to managers?
A) Managers rely less on communication skills to share decisions
B) Managers need less critical thinking when making decisions
C) Managers rely less on collaboration in decision making
D) Managers make more ethical decisions
E) Managers make faster and better decisions
Answer: E
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.5: Learn about the skills you will gain through this text.

147) How can businesses improve their ethical practices in the work environment?
A) Be open and honest
B) Avoid collaboration with competitors
C) Improve critical thinking
D) Go beyond the superficial when processing information
E) Understand patterns and relationships in the market
Answer: A
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.5: Learn about the skills you will gain through this text.

148) Why is it important to know how to work effectively with others?
A) Communication is decreasing at the leadership level
B) Information technology is replacing human interaction
C) Opportunities for collaboration continue to increase
D) Social responsibility is becoming more critical
E) Business ethics demand cross functionality
Answer: C
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Application of knowledge
LO: 1.5: Learn about the skills you will gain through this text.

149) Critical thinking is necessary to understand patterns and relationship among information.
Answer: TRUE
Difficulty: Moderate
AACSB: Application of knowledge
Question Category: Critical thinking
LO: 1.5: Learn about the skills you will gain through this text.

150) Explain the importance of strong communication skills in the workplace.
Answer: Regardless of your job or level in an organization, being able to communicate effectively is extremely important. You need to be able to write clearly, tailor your message to the situation, and speak and listen well in order to succeed. Leaders need communication skills to maintain and support corporate culture and their vision for the future. Managers need strong communication skills to delegate work, and offset errors in the grapevine.
Difficulty: Challenging
AACSB: Analytical thinking
Question Category: Synthesis
LO: 1.5: Learn about the skills you will gain through this text.

Chapter 1: The U.S. Business Environment

Chapter Overview

Many students come to an introduction to business class not quite sure what it's all about. The course has something for everyone, from those who have been in the business world a while to those just getting started. As the book unfolds, students develop an understanding of the foundations of business and will be able to apply what they learn about business to many aspects of the course.

This first chapter dives right into the world of business, explaining what business is, what its main goals and functions are, and how the external environments of business affect the success and failure of any organization.

Learning Objectives

1-1. Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

1-2. Describe the different types of global economic systems according to the means by which they control the factors of production.

1-3. Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

1-4. Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

1-5. Learn about the skills you will gain through this text.

LIST OF IN-CLASS ACTIVITIES: INSTRUCTOR'S CHOICE

Activity	Description	Time Limit
1. Icebreaker: What Do You Know About Business?	Students assess their level of knowledge about business and set their own learning goals for the class.	20 min.
2. Up for Debate: Comparing Economic Systems	Teams of students discuss types of economic systems.	25 min.
3. Small Group Discussion: Scanning the Environment	Students consider how parts of the external environment affect businesses and industries.	30 min.

CHAPTER OUTLINE

Learning Objective 1-1:

Define the nature of U.S. business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.

Business, Profit, and the External Environment
Are businesses large, successful corporations, once-great but struggling companies, multinational giants, or local supermarkets and family-owned operations?

A. Business and Profit
A **business** is an organization that provides goods and services to earn profits. **Profits** are the difference between a business's revenues and expenses.

1. **Consumer Choice and Demand**
In a capitalistic system like that of the United States, consumers have freedom of choice. In turn, businesses must take into account consumer demand as shown through wants and needs in their pursuit of profits.

2. **Opportunity and Enterprise**
Opportunity involves goods or services that consumers need or want, especially if no one else is supplying them or if existing businesses are doing so inefficiently or incompletely.

3. **The Benefits of Business**
Businesses produce most of the goods and services consumed, employ most working people, create most innovations, and provide opportunities for new businesses to serve as suppliers. Further, businesses contribute to the quality of life and the standard of living in a society. Businesses provide incomes for owners, taxes to support government, and support to charities and community leadership.

B. The External Environments of Business
The **external environment** consists of everything outside an organization's boundaries that might affect it. Managers must understand their environment to understand how to operate and compete within it. Businesses can also influence their environments. Six major dimensions of the external environment are:

1. **Domestic Business Environment**
The domestic business environment refers to the environment in which a firm conducts its operations and derives its revenues. It includes customers, suppliers, and competitors.

2. **Global Business Environment**
The global business environment refers to the international forces that affect a business; various factors including international trade agreements, international economic conditions, and political unrest affect the global environment at both the general and immediate levels. International market opportunities, suppliers, cultures, competitors, and currency values can impact any business.

3. **Technological Environment**
The technological environment generally includes all the ways by which firms create value for their constituents; technology includes human knowledge, work methods, physical equipment, electronics and telecommunications, and various processing systems used to perform business activities.

4. **Political-Legal Environment**
The political-legal environment reflects the relationship between business and government, usually in the form of government regulation of business.

5. **Sociocultural Environment**
The sociocultural environment includes the customs, mores, values, and demographic characteristics of the society in which an organization functions.

6. **Economic Environment**
The economic environment refers to relevant conditions that exist in the economic system in which a company operates.

Use In-Class Activity 1: **Icebreaker: What Do You Know About Business?**
Time Limit: 20 minutes

Learning Objective 1-2:

Describe the different types of global economic systems according to the means by which they control the factors of production.

Economic Systems

An **economic system** is a nation's system for allocating its resources among citizens, both individuals and organizations..

A. Factors of Production

A basic difference between economic systems is the way in which a system manages its factors of production—the resources that a country's businesses use to produce goods and services. Economists focus on five factors of production:

1. **Labor**

The human resource element in businesses, labor includes the physical and intellectual contributions people make while engaged in economic production.

2. **Capital**

The financial resources needed to operate an enterprise are known as capital.

3. **Entrepreneurs**

An entrepreneur is an individual who accepts the risks and opportunities entailed in creating and operating a new business.

4. **Physical Resources**

The tangible things that organizations use to conduct their business are physical resources and can include natural resources, raw materials, offices, storage and production facilities, supplies, and computers.

5. **Information Resources**

Businesses rely on information resources such as market forecasts, the specialized knowledge of people, and economic data.

KEY TEACHING TIPS

- The production of tangible goods once dominated most economic systems. But now, the most important factors of production are entrepreneurial skills and information resources. The more a country can create an environment that promotes entrepreneurship and harnesses knowledge and information, the better off it will be.

- Remind students that inputs used to produce outputs are also called *factors of production*; they include labor, capital, entrepreneurship, physical resources, and information resources.

QUICK QUESTIONS

- What are the factors of production used to produce orange juice?

- What are the factors of production used to produce an online video game?

- Entrepreneurship involves tremendous risk taking and is a welcome ingredient in a free market system. What characteristics of our free market system encourage risk taking?

B. Types of Economic Systems
Economic systems vary, depending on how the factors of production are managed.

1. **Planned Economies**

These systems rely on a centralized government to control all or most of the factors of production and allocation decisions. With **communism**—as currently operating in North Korea—all sources of production are owned and operated by the government.

2. **Market Economies**

Producers and consumers control production and allocation decisions through supply and demand. A **market** is a mechanism for exchange between the buyers and sellers of a particular product. The political basis of a market economy is **capitalism,** which allows the private ownership of the factors of production and encourages entrepreneurship by offering profits as incentives. The economic basis is the operation of demand and supply.

3. **Mixed Market Economies**

This type of economy features characteristics of both planned and market economies; many countries are moving from planned systems to mixed market systems through **privatization,** which involves the transformation of government-controlled businesses into privately owned enterprises. In the partially planned system called **socialism,** the government owns and operates selected major industries. Many Western European countries, including England and France, allow free market operations in most economic areas but keep government control of others, such as health care. The United States currently is wrestling with who should control health care for the portion of the population that is not eligible (by age) for Medicare.

KEY TEACHING TIPS

- Remind students that a government's level of control distinguishes capitalism from socialism. If you have foreign students in your class, you may want them to say a bit about the economic systems in their native countries.

- Remind students that an *economic system* is defined by how it allocates factors of production. In a *planned economy,* the government owns and controls these factors; in a *market economy,* producers/consumers buy and sell what they choose.

- Make sure students understand that a *mixed market economy* is characterized by government ownership of major industries working alongside privately owned industries.

- Ask students to give their opinions about the health care system in the United States, and the debates regarding restructuring it. In addition, you could ask students to research and report on any new stories concerning the health care system that appear in publications such as the *Wall Street Journal.* It is never too early to get students to regularly read the business news!

Use In-Class Activity 2: **Up for Debate: Comparing Economic Systems Time Limit: 30 Minutes**

QUICK QUESTIONS

- Give an example of a country with a planned economy. What makes this economy planned?

- Give an example of a country with a market economy. How is the economic system different in this country?

- Do you think the government should be involved in supporting the health care insurance system in the United States? Why or why not?

Learning Objective 1-3:

Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

The Economics of Market Systems
Understanding the complex nature of the U.S. economic system is essential to understanding the environment in which U.S. businesses operate.

A. Demand and Supply in a Market Economy
Billions of exchanges take place every day between businesses and individuals; between businesses; and among individuals, businesses, and governments. Exchanges conducted in one area often affect exchanges elsewhere.

1. **The Laws of Demand and Supply: Demand** is the willingness and ability of buyers to purchase a product; **supply** is the willingness and ability of producers to offer a good or service for sale. The **law of demand** states that buyers will purchase more of a product as its price drops; the **law of supply** states that producers will offer more of a product for sale as its price increases.

a. **The Demand and Supply Schedule.** The **demand** and **supply schedule** indicates how much of a product will be sold at various prices. Generally speaking, the more consumers are willing to pay for a good, the more producers are likely to divert resources to make more of the good. Conversely, as the price at which consumers are willing to pay for a product falls, production becomes less profitable and producers cut back on production to divert resources to more profitable areas. The information is obtained from market research, historical data, and other studies of the market.

b. **Demand and Supply Curves.** A **demand curve** shows how many products will be demanded at different prices; a **supply curve** shows how many products will be supplied at various prices. The curves are based on the observation that quantity demanded increases as price decreases and the quantity supplied increases as price increases. The point at which the curves intersect is the **market price** (or **equilibrium price**). In other words, the equilibrium price reflects that the quantity demanded and the quantity supplied are equal.

c. **Surpluses and Shortages.** With a **surplus,** the quantity supplied exceeds the quantity demanded. When quantity demanded exceeds quantity supplied there will be a **shortage.** Businesses should seek the ideal combination of price charged and quantity supplied so as to maximize profits, maintain goodwill among customers, and discourage competition.

QUICK QUESTION

- What is the equilibrium price? What happens if incomes rise and demand increases? What happens if producers have a surplus and supply increases? Why should producers aim to meet, but not exceed, demand at the equilibrium price?

B. Private Enterprise and Competition in a Market Economy
Individuals pursue their own interests with minimal government restriction in a **private enterprise** system; such a system requires:

- **Private property rights**—the ability of individuals to own resources
- **Freedom of choice**—the ability to choose where to work and what to buy
- **Profits**—the ability to take risk to earn profit, and
- **Competition—**the ability to compete for customers and resources. Competition occurs when two or more businesses vie for the same resources or customers.

1. **Degrees of Competition.** Economists have identified four degrees of competition in a private enterprise system:

a. **Perfect Competition.** Many small firms exist in an industry; no single firm is powerful enough to influence price. Since no single firm is powerful enough to influence the price of the product, prices are determined by market forces such as supply and demand.

b. **Monopolistic Competition.** Many sellers of all sizes, but also many buyers exist, so sellers focus on numerous differentiation strategies, such as brand names, design, and advertising.

c. **Oligopoly.** An industry has only a handful of sellers; market entry is difficult because large capital investment is needed. Sellers tend to be large.

d. **Monopoly**. An industry or market has only one producer; that producer enjoys complete control over price. Utility companies are **natural monopolies**, industries in which one company can most efficiently supply all needed goods or services. Duplicate facilities would be wasteful.

KEY TEACHING TIPS

- Remind students that *perfect competition* is characterized by (a) many buyers, (b) many sellers, and (c) buyers and sellers who accept a going price.

- Remind students that *monopolistic competition* is characterized by (a) many buyers, (b) many sellers, and (c) products that are differentiated.

- Reinforce that an *oligopoly* is characterized by (a) many buyers, (b) few sellers, (c) products that are quite similar, and (d) a change in price by one seller often meaning a change in price by all sellers.

- Remind students that a *monopoly* is characterized by (a) many buyers, (b) only one seller, and (c) prices being set by the one seller.

QUICK QUESTION

- Which level of competition best describes the market in each of the following scenarios:
  - Your local Pizza Hut (monopolistic competition)
  - A local farmer selling apples for applesauce (perfect competition)
  - Cell phone service (oligopoly)
  - Apple store (monopolistic competition)
  - Local utility/power company (monopoly)

HOMEWORK

Supply and Demand**!**
Now is a good time to assign Application Exercis 1-9 from the end-of-chapter materials as homework. This assignment asks students to analyze how demand effects prices for a service like Uber.

At-Home Completion Time: 1 to 1.5 hours

Learning Objective 1-4:

Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

Economic Indicators

A. **Economic Indicators**

Economic indicators show whether an economic system is strengthening, weakening, or remaining stable.

1. **Economic Growth, Aggregate Output, and Standard of Living.** The **business cycle** is the pattern of short-term expansions and contractions in an economy; one important use of economic measures is to help governments and businesses understand where in the business cycle they currently are. **Aggregate output** is the total quantity of goods and services produced by an economic system during a given period. Simply put, an increase in aggregate output is growth. **Standard of living** refers to the total quantity and quality of goods and services that can be purchased with the currency used in an economic system; standard of living increases when the quantity of goods and services increases, and the economic system provides more of the goods and services people want.

2. **Gross Domestic Product (GDP):** The **GDP** is the total value of all goods and services produced within a given period through *domestic* factors of production; GDP is a measurement of aggregate output. If GDP is going up, aggregate output is going up; if aggregate output is going up, the nation is experiencing economic growth. **Gross national product (GNP)** refers to the total value of all goods and services produced by a national economy within a given period regardless of where the factors of production are located.

a. **Real Growth Rate:** Real growth depends on output increasing at a faster rate than population; the real growth rate in 2019 of the U.S. economic system was 2.9 percent while the population grew at a rate of 0.60 percent, thus indicating the real growth rate is modest.

b. **GDP per Capita:** GDP per capita means GDP per person. GDP divided by total population equals GDP per capita. It is a better measure than GDP itself of the economic well-being of the average person.

c. **Real GDP:** Real GDP means that GDP has been adjusted to account for changes in currency values and price changes. Nominal GDP is GDP measured in current dollars or with all components valued at current prices, with no adjustments made.

d. **Purchasing Power Parity:** Purchasing power parity is the principle that exchange rates are set so that the prices of similar products in different countries are about the same. It quantifies what people can actually buy with the financial resources allocated to them by their respective economic systems; it gives a better sense of standards of living around the world.

3. **Productivity:** Productivity compares how much a system produces with the resources needed to produce it; increases in productivity yield increases in the standard of living.

a. **Balance of Trade:** A country's balance of trade is the economic value of all the products that it exports minus the economic value of its imported products. A *positive* balance results when the value of a country's exports is greater than its imports; that is, more money is flowing into the country as a result of exporting. A *negative* balance results when a country imports more than it exports.

b. **National Debt:** A country's **national debt** is the amount of money that is owed by the government to creditors.

B. **Economic Stability** results when the amount of money available in an economic system and the quantity of goods and services produced in it are growing at about the same rate.

1. **Inflation**. Inflation occurs when widespread price increases plague an economic system; the amount of money in the economic system exceeds the amount of actual output. Inflation can be measured by the **consumer price index (CPI),** which measures prices of typical products purchased by consumers living in urban areas.

2. **Unemployment.** Unemployment is the level of joblessness among people actively seeking work in an economic system. When unemployment is low, there is a shortage of labor available for businesses to hire. Unemployment is sometimes a symptom of a **recession** or of a **depression**. For example, during downturns in the business cycle people in different sectors may lose their jobs at the same time. As a result, overall income and spending may decline to the extent that businesses may cut spending on the factors of production—including labor, leading to more unemployment.

3. **Recessions and Depressions.** Aggregate output is measured to determine whether an economy is going through a recession. Governments and economists define a **recession** as a period during which aggregate output, as measured by real GDP, declines. The U.S. economy went into a recession in 2008 and many economists agree that we began to emerge in 2011. A prolonged and deep recession is a **depression**.

C. Managing the U.S. Economy. The government manages the U.S. economic system through both fiscal and monetary policies. **Fiscal policies** manage the collection and spending of revenues; changes in tax rates can function as fiscal policies. **Monetary policies** focus on controlling the size of the nation's money supply; the government can influence banks to lend money and can influence the supply of money through stimulus packages. **Stabilization policy** is made up of both fiscal and monetary policies; the goal is to smooth out fluctuations in output and unemployment and to stabilize prices.

<u>**KEY TEACHING TIPS**</u>

- Make sure that students understand that *gross domestic product* includes only the value of products produced *within a nation's borders;* the figure includes the value of products produced by both domestic and foreign companies within those borders.

- Reinforce that *gross national product* includes the value of products produced by a country *regardless of where they are produced;* this figure does *not* include the value of products produced within the country by a foreign company.

● Emphasize that the government regulates the money supply and interest rates through *monetary policy*; the government influences money supply via taxation and spending through *fiscal policy*.

● Make sure students understand that *inflation* occurs when overall price levels go up because too much money is floating around; as a result, purchasing power declines.

***Use In-Class Activity 3*: Small Group Discussion: Scanning the Environment**
Time Limit: 25 minutes

HOMEWORK

Supply and Demand
Now is a good time to assign Application Exercise 1-10 from the end-of-chapter materials as homework. This assignment asks students to pick a product or service to determine how supply and demand operate in the real world.

At-Home Completion Time: 1–2 hours

Learning Objective 1-5:
Learn about the skills you will gain through this text.

A. **Communication:** This includes how leaders communicate the corporate culture (Chapter 5) and how managers communicate the delegation process (Chapter 6).

B. **Critical Thinking:** Chapter 9 covers the decision-making process while Chapter 11 discusses the research process and research methods.

C. **Collaboration:** Teams and team-based methods of organizing are covered in Chapters 6 and 8.

D. **Business Ethics and Social Responsibility:** Chapter 2 is devoted to these topics.

E. **Information Technology Application and Computing Skills:** Information technology application and computing skills is found in Chapter 14.

IN-CLASS ACTIVITIES

In-Class Activity 1: Icebreaker: What Do You Know About Business?

Activity Overview:
This activity helps students assess their level of knowledge about business and set their own learning goals for the class.

Time Limit: 20 minutes

What to Do:
1. Ask each student to take out a piece of paper and divide it into two columns. In the first column, students should write the four or five most important things they currently know about business, and in the second column, the four or five things they would like to learn. Tell them that if they are having difficulty coming up with items to list, they should take a look at the table of contents in the text. It will give them some clues so that this task doesn't frustrate them. (5 minutes)

2. Divide students into groups of three to five people and ask them to share their lists with each other. As they listen, they can delete or add anything that seems relevant. (5 minutes)

3. Ask them to switch groups, so that they are with all new people, and repeat the process of sharing their lists. (5 minutes)

4. Ask students to switch to a third group of all new people. With this group, the goal is to synthesize their lists into one big idea of what they know, and one big idea of what they want to learn. (5 minutes)

Don't Forget:
This activity allows students to get to know each other, as well as set expectations for the course. The underlying agenda is to get them talking to each other, setting the stage for active participation throughout the class.

Wrap-Up:
Wrap up the discussion by having each group report back to the class. You may want to record their responses and post them in the room for reference as you move through the course.

In-Class Activity 2: Up for Debate: Comparing Economic Systems

Activity Overview:
This activity gets students talking about similarities and differences between the U.S. economic system and other systems.

Time Limit: 30 minutes

What to Do:

1. Divide the class into small groups. Ask the groups to assume they have just overheard a classmate say, "The United States is becoming more socialist everyday—with all the government control." Have each group list reasons why the statement could be true and reasons why the statement could be false. (15 minutes)

2. Reassemble the class and discuss each group's thoughts. (15 minutes)

Don't Forget:
Remind students that a government's level of control distinguishes capitalism from socialism. If you have foreign students in your class, you may want them to say a bit about the economic systems in their native countries.

Wrap-Up:
Wrap up the discussion by reminding students that the U.S. economic system and a socialist system have many similarities and differences. For example, workers in socialist economies often work fewer hours, have longer vacations, and receive more health, education, and child-care benefits than do workers in capitalist economies. On the other hand, the federal government does control some basic services in the United States as well as various aspects of the market through agencies such as the Food and Drug Administration and the Federal Communication Commission.

In-Class Activity 3: Small Group Discussion: Scanning the Environment

Activity Overview:
This activity asks students to consider how various parts of the external environment affect businesses and industries.

Time Limit: 25 minutes

What to Do:
1. For larger groups, divide the class into four-member groups; for smaller groups, divide the class into two-member groups.

2. Assign each group a specific industry (e.g., automotive, airline, fast food, computer, apparel, or restaurant).

3. Ask each group to consider what variables from the technological, political-legal, sociocultural, and economic environments affect their assigned industry. (15 minutes)

4. Ask a spokesperson from each group to share their input. (10 minutes)

Don't Forget:
Remind students that external environmental elements can change dramatically, affecting specific industries differently over time.

Wrap-Up:
Wrap up the discussion by making sure that students understand that the nature of a specific business within an industry and the types and quantities of products/services produced can influence the impact of external environmental variables.

ANSWERS FOR END-OF-CHAPTER ACTIVITIES

QUESTIONS FOR REVIEW

1-1. What are the benefits of a free market economy? What are the drawbacks?

In a market economy, individuals—producers and consumers—control production and allocation decisions through supply and demand. Sellers can charge what they want, and customers can buy what they choose. The political basis of market processes is capitalism, which fosters private ownership of the factors of production and encourages entrepreneurship by offering profits as an incentive. Most countries rely on some form of mixed market economy—a system featuring characteristics of both planned and market economies. Socialism may be considered a planned economy or a mixed economy, with government ownership of selected industries but considerable private ownership, especially among small businesses. **(Learning Objective 1-2—AACSB—reflective thinking)**

1-2. What are the factors of production? Is one factor more important than the others? If so, which one? Why?

The five factors of production are labor, capital, entrepreneurs, physical resources, and information resources. All five factors are crucial; however, their relative importance depends on the product and industry. In the software development business, for example, labor and information resources are especially important, but the business couldn't survive without capital and physical resources (computers), and it wouldn't have been launched without an entrepreneur. **(Learning Objective 1-2—AACSB—application of knowledge)**

1-3. How are they demand and supply curves related?

The curve that describes the range of possible prices that a buyer will pay for a range of quantities demanded by a buyer is the *demand curve*. The curve that describes the range of prices that a seller can charge for a range of quantities supplied by the seller is called the *supply curve.* The point where the demand curve and the supply curve intersect is the point at which the intentions of buyers and sellers coincide. The price at this point is the *equilibrium price.* **(Learning Objective 1-3—AACSB—application of knowledge)**

1-4. Can business negatively affect society? Give an example of a negative effect.

Companies of all sizes make the products and provide the services that people are willing to buy. Some examples of unwanted and unfortunate environmental and social problems in society include things like pollution, child labor, bribes and corruption, habitat destruction, global climate change, and a host of other negative consequences. **(Learning Objective 1-1—AACSB—application of knowledge)**

QUESTIONS FOR ANALYSIS

1-5. Identify and describe at least three factors in the external environment that affect college enrollment. Explain how each trend affects colleges and universities. Explain how each factor may affect college and university enrollment, either by increasing it or reducing it.

Answers will vary but students will probably discuss trends in birth and unemployment rates as well as wage rates. **(Learning Objective 1-1—AACSB—application of knowledge)**

1-6. Give an example of a situation in which a surplus of a product led to decreased prices. Similarly, give an example of a situation in which a shortage led to increased prices. What eventually happened in each case? Why?

Answers will vary; however, any clearance sale illustrates the concept of surplus driving down prices. The classic example of a shortage is scalpers selling event tickets at inflated prices. A specific example is Nike's new releases of Air Jordan shoes, in very limited numbers, creating heightened interest and intense demand initially. In both cases, the market eventually determines a price at which all the supply can be sold. **(Learning Objective 1-3—AACSB—application of knowledge)**

1-7. Explain how current economic indicators, such as inflation and unemployment, affect you personally. Explain how they may affect you as a manager.

Answers will vary, but all students should include prices paid for consumer goods and the availability of desirable jobs. Managers are affected by inflation because it tends to drive up wages and by unemployment because it affects their ability to find workers. Also, both inflation and unemployment affect consumer and industrial demand, which play a key role in management. **(Learning Objective 1-4—AACSB—application of knowledge)**

1-8. How are the overall economic goals of stability and growth related? Can they be reconciled to each other? If so, how?

A nation's economic growth can be measured through its aggregate output, resulting standard of living, GDP, and productivity. Economic stability, on the other hand, refers to the condition in which the amount of money available in an economic system and the quantity of goods and services produced in it are growing at the same rate. Growth is involved in both, thus resolving the apparent inconsistency. **(Learning Objective 1-4—AACSB—reflective thinking)**

APPLICATION EXERCISES

1-9. Sarah and Olivia live on the outskirts of town. Since their car was in the shop, they took an Uber to an early morning medical appointment. The Uber cost $20. At about 8:30 AM, when searching for an Uber home, the app notified them that the ride home would be $80. Why do you think this happened? Do you think it is fair?

Answers will vary, but students should focus on the relationship between supply and demand as discussed in the chapter. For example, when supply is relatively fixed, such as the number of Uber drivers at a given time in a geographic area, the drivers can charge more during heavy traffic times because the price is what a willing buyer will pay a willing seller. **(Learning Objective 1-3—AACSB—application of knowledge)**

1-10. Pick a product or service that you buy infrequently, such as a car or a vacation. Pick a producer or provider, such as Jeep or Marriott, and determine: (1) how demand and supply affect this product or service, (2) what essential factors of production are most central to the supplier's operations, and (3) how fluctuations in economic indicators affect this business.

Answers will vary, but students should recognize that demand and supply affect every business in some way. Typical factors of production cited in this answer include capital, labor, physical resources, information resources, and entrepreneurship. Economic indicators affect businesses differently at different times, depending on whether they are manufacturers or retailers. Ultimately, price increases in an industry will affect the buying power of consumers, which will affect how much is produced and purchased. **(Learning Objective 1-3—AACSB—application of knowledge)**

BUILDING A BUSINESS: CONTINUING TEAM EXERCISE 1-11 TO 1-14
(Learning Objectives 1-2 and 1-3—AACSB—interpersonal relations and teamwork, analytical thinking, application of knowledge)

Groups should consider domestic business environment, global business environment, technological environment, political-legal environment, sociocultural environment, and economic environment when identifying three trends that will create business opportunities.

The student should answer the following questions:

- What is my product or service?
- Who are my customers?
- Where are my customers located?
- Is my business idea easily copied?
- If there are substitutes for my product or service, how can I make my product/service stand out from competitors' offerings?
- How can having competition benefit me?

TEAM EXERCISE: COMPETITION IN THE NEW MOBILE ECONOMY 1-15 TO 1-18
(Learning Objective 1-3—AACSB—interpersonal relations and teamwork, analytical thinking, application of knowledge)

1-15. What form of competition best characterizes this market? What characteristics did you identify that led you to that conclusion?

This market is best characterized as monopolistic competition: many sellers, many buyers, and differentiation required to attract buyers. In this scenario, differentiation might include the quality of the coffee, quality of customer service, cleanliness of the shop, and even location. However, students could argue for pure competition, since there is very little room to differentiate one coffee shop from another, causing prices across the board to be fairly uniform. In fact, retail coffee could be considered a commodity.

1-16. Develop specific pricing strategies based on each of the following situations:

- The average cup of coffee sells for $3 in your area. Right now you are selling 10,000 cups of coffee a month, and your fixed costs, including your own salary and that of your partner, are about $30,000 per month.
- The big chain store around the corner reduced their average sales price per cup to $2.80. As a result, your business falls off by 25 percent.

Scenario 1: Students should point out that the shop is running at break even, and that a price drop may increase demand, but if the market is in relative equilibrium, it is likely that decreasing price will result in an overall decrease in revenue. They may support this assertion mathematically with examples.
Scenario 2: If volume drops by 25 percent, the company will experience losses, even if it makes up the drop by lowering prices. Students should be creative in their solutions, coming up with different, nonprice ways to differentiate the business from the chain stores in order to make up the drop in volume.

1-17. Discuss the role that various inducements other than price might play in affecting demand and supply in this market.

Inducements will not directly increase overall demand. However, the initiative to take online payments may reduce demand at other stores while increasing demand at the competitor. However, students may identify some inducements that cause tea drinkers to switch to coffee, or noncoffee drinkers to take up the habit.

1-18. Is it always in a company’s best interest to feature the lowest prices?

It is definitely not always in a company’s best interest to feature the lowest price. If that is the only point of differentiation between a company’s product and its competitors’ offerings, then customers will perceive that price is the most important differentiation. That will lead to a price war, and, in the long run, no company can win. It is a much better strategy to inform customers of why your product or service is worth paying a higher price.

EXERCISING YOUR ETHICS: GETTING CAUGHT OUT IN THE COLD
(Learning Objectives 1-2 and 1-3—AACSB—ethical understanding and reasoning, reflective thinking)

1-19. What are the primary arguments both for and against using AI in this scenario?

Businesses can use AI to analyze data, automate processes, cut costs, and improve the customer experience. Arguments against include lack of human interaction, lack of creativity, especially in design and problem solving, and becoming dependent on the technology.

1-20. What are the underlying ethical issues?

Underlying ethical issues revolve around transparency (do you tell your clients you are using AI to generate initial drafts?), bias, and accuracy. One of the primary debates surrounding the ethics of AI in law is the question of bias. AI systems rely on algorithms and machine learning to analyze data and make predictions. However, if the data used to train these systems is biased, the AI can perpetuate that bias, resulting in unfair outcomes.

1-21. What would you do if you were actually faced with this situation in both the paralegal and the managing partner roles?

Answers will vary, but students should acknowledge the ethical issues and offer ways to mitigate the drawbacks and ethical issues.

CASES:
REINVENTING AN AMERICAN ICON
(Learning Objectives 1-3 and 1-4—AACSB—application of knowledge, reflective thinking)

1-22. **How do you think a recession would affect Harley Davidson and why?**

Students should acknowledge that motorcycles in the United States are generally a luxury item and they would therefore predict that sales would decline in the face of a recession, as overall demand would decrease. A decrease in demand, especially for a nonessential item like a motorcycle, would lower prices and affect the amount supplied as well. Producing fewer motorcycles as the company struggles to sell off inventory would cause layoffs and have ripple effects down the supply chain. Producing fewer motorcycles and selling at lower prices (or not selling at all) would decrease the company's bottom line.

1-23. Do you think Harley made a mistake by shifting focus to smaller bikes as well as the Pan American and the LiveWire? If so, why? If not, why not?

Student answers will vary but should address the brand identity of the company as a seller of big bikes, and that diluting that brand identity may actually decrease sales as the brand become diluted due to branching out the product line. It's also a major investment and therefore a major risk to produce motorcycles that may not appeal to a wider audience.

1-24. What economic indicators would Harley management be most likely to watch, and why?

The economic indicators most likely to be watched are: GDP, productivity, standard of living, and inflation. GDP measures economic growth; standard of living and productivity impact the purchasing power of people; inflation can cause wages to rise, but can also lead to increased prices, resulting in a decline in purchasing power.

1-25. Do the turbulent rising and falling fortunes of business increase or decrease your confidence in a capitalistic system based on private enterprise?

Student answers will vary regarding their level of confidence in a capitalistic system based on private enterprise. They should address the elements of private enterprise as well as the degrees of competition faced by various businesses or industries.

1-26**.** What is your prediction for the future of Harley Davidson? What is your rationale for your opinion based on what you have learned in this chapter?

Student answers will vary but should be grounded in the concepts of supply and demand.

COMPETITION IN THE ATHLETIC SHOE INDUSTRY

(Learning Objectives 1-1 and 1-3—AACSB—application of knowledge, reflective thinking)

1-27. Do some research to determine the top three to five athletic footwear manufacturers. How do the various manufacturers differentiate their products?

Students should address brand differentiation and customer recognition, as well as price and quality.

1-28. Which manufacturer’s product do you think is superior? Give a short list of reasons for your opinion.

Student answers will vary based on individual tastes and preferences. Justification should focus on brand differentiation.

1-29. Do you think pricing strategies in the athletic footwear market are coordinated? If so, do you think the coordination is overt or a function of the market?

Students should focus on the competitive, social, technological, and economic factors that will affect the success or failure of products in the market. They should consider why a competitor would change the pricing strategy. It should not be surprising that there seems to be coordination in this market.

1-30. How hard would it be for a new company to get started in the athletic footwear industry today? What are the barriers to entry? What strategies would you suggest for someone with an idea for a new design of athletic footwear?

Students should focus on barriers to entry such as economies of scale. For instance, the big shoe companies can order more raw materials at lower prices and have the ability to outsource production to countries with lower wages. Students should identify several strategies for new shoes designs, such as selling the design to one of the big companies or starting a crowdfunding site to raise capital.

1-31. In terms of degrees of competition, how would you describe the market for athletic footwear? Justify your assertion.

Students could justify either monopolistic competition or perhaps oligopoly. In either case, they should tie the degrees of competition to the factors identified in the text.

1-32. Other than supply, what factors would affect the price that manufacturers and retail outlets are able to command for their products?

Students should point to brand awareness and things like perceived prestige and quality.

Once students have had time to prepare to discuss these questions, discuss them in class, focusing on degrees of competition, differentiation, supply and demand, and other market forces.