

CHAPTER 2—ECONOMICS: EVOLVING SYSTEMS

MULTIPLE CHOICE

1. Which of the following is the study of how a society uses scarce resources to produce and distribute goods and services?
- finance
 - acculturation
 - economics
 - marketing

ANS: C PTS: 1 REF: 32 OBJ: 1
BLM: Remember

2. Which of the following is the study of the economy as a whole, looking at aggregate data for large groups of people, companies, or products?
- economics aggregation
 - national economics
 - microeconomics
 - macroeconomics

ANS: D PTS: 1 REF: 32 OBJ: 1
BLM: Remember

3. A manager in the life insurance industry examining the national level of personal income, the unemployment rate, interest rates, inflation, and death statistics would be looking at which of her company's environments?
- microeconomic
 - macroeconomic
 - national economic
 - competitive

ANS: B PTS: 1 REF: 32 OBJ: 1
BLM: Higher Order

4. What is the definition of macroeconomics?
- changes in resource availability in the marketplace
 - the economy as a whole by looking at aggregate data
 - the activities of individual companies and products
 - the supply and demand of individual households

ANS: B PTS: 1 REF: 32 OBJ: 1
BLM: Remember

5. What is the definition of microeconomics?
- monetary policy as it pertains to specific industries
 - fiscal and monetary policy on a national level
 - the interactions of aggregated national and international economic data
 - individual companies, markets, or households

ANS: D PTS: 1 REF: 32 OBJ: 1
BLM: Remember

6. The GMC manager who evaluates truck models made by his competition, consumer demand for different sizes of trucks, labour and material costs to build trucks, and current prices of all trucks would be taking which of the following perspectives?
- microeconomics
 - individual economics
 - aggregated economics
 - macroeconomics

ANS: A PTS: 1 REF: 32 OBJ: 1
BLM: Higher Order

7. The agricultural sector in Guatemala accounts for about one-quarter of the nation's GDP, two-thirds of its exports, and half of its labour force. This type of information would be revealed through which perspective?
- regional monetary policy
 - aggregated economics
 - area economics
 - microeconomics

ANS: D PTS: 1 REF: 32 OBJ: 1
BLM: Higher Order

8. An individual who is thinking of buying a Wendy's franchise in London, Ontario, and is examining the employment statistics, area income levels, and local competition would be interested in which of the following fields?
- regional monetary policy
 - macroeconomics
 - area economics
 - microeconomics

ANS: D PTS: 1 REF: 32 OBJ: 1
BLM: Higher Order

9. Which is an example of a factor of production?
- corporate social responsibility
 - business ethics
 - entrepreneurship
 - the economic climate

ANS: C PTS: 1 REF: 33 OBJ: 1
BLM: Remember

10. The relationship of the inputs and outputs of households, businesses, and governments can be graphically explained through the use of which figure?
- diamond
 - box
 - circle
 - square

ANS: C PTS: 1 REF: 34 OBJ: 1
BLM: Remember

11. To examine how the sectors of the economy interact, you should think in terms of which of the following figures?
- diamond shape
 - linear graph
 - economic hierarchy
 - circular flow

ANS: D PTS: 1 REF: 34 OBJ: 1
BLM: Remember

12. Which one characteristic most clearly defines a market structure?
- the number of suppliers in a market
 - the market share
 - the type of product sold
 - how the company is organized

ANS: A PTS: 1 REF: 38 OBJ: 3
BLM: Remember

13. In perfect competition, which of the following conditions exists?
- only one producer
 - no relationship between supply and demand
 - a large number of buyers and few sellers
 - a large number of sellers producing nearly identical products

ANS: D PTS: 1 REF: 38 OBJ: 3
BLM: Remember

14. For most agricultural products, farmers produce homogeneous products, sell them to a common market, and generally cannot affect prices greatly. This is an example of which kind of market structure?
- a pure monopoly
 - imperfect competition
 - perfect competition
 - monopolistic competition

ANS: C PTS: 1 REF: 38 OBJ: 3
BLM: Higher Order

15. Which of the following terms refers to a market in which there are a large number of companies that differentiate their products?
- an oligopoly
 - oligopolistic competition
 - perfect competition
 - monopolistic competition

ANS: D PTS: 1 REF: 39 OBJ: 3
BLM: Remember

16. In a large metropolitan market, it is relatively easy to set up a law office. The ease of entry explains why you will find hundreds of lawyers listed in the Toronto phone book. Each lawyer is a close substitute for another but with slight differences. Which of the following market structures best describes the one in which lawyers operate?
- monopolistic competition
 - pure competition
 - oligopoly
 - perfect monopoly

ANS: A PTS: 1 REF: 39 OBJ: 3
BLM: Higher Order

17. Think about all the restaurants that are located near your campus. You have probably noted some new ones appearing, and others closing because of lack of business. What type of competition exists in the restaurant business?
- monopolistic competition
 - oligopolistic competition
 - an oligopoly
 - perfect competition

ANS: A PTS: 1 REF: 39 OBJ: 3
BLM: Higher Order

18. An industry in which a few companies produce most or all of the output of a product and in which large amounts of capital are needed is known as which of the following?
- perfect competition
 - an oligopoly
 - monopolistic competition
 - imperfect competition

ANS: B PTS: 1 REF: 39 OBJ: 3
BLM: Higher Order

19. In the middle of the mountains in northern BC, there are five service stations competing for all the business that exists in this isolated location. When one service station lowers its price on gas, all must follow suit. These service stations are operating in which type of market structure?
- oligopoly
 - monopoly
 - perfect competition
 - imperfect competition

ANS: A PTS: 1 REF: 39 OBJ: 3
BLM: Higher Order

20. There is a large capital requirement needed to set up a tire manufacturing operation. What type of market structure do tire manufacturers operate in?
- perfect competition
 - oligopoly
 - imperfect competition
 - monopolistic competition

ANS: B PTS: 1 REF: 39 OBJ: 3
BLM: Higher Order

21. Which of the following statements describes an oligopoly?
- In an oligopoly, three or four companies usually dominate the marketplace.
 - In an oligopoly, there are many companies selling identical products.
 - In an oligopoly, prices between companies are very different.
 - In an oligopoly, there are usually one or two companies that dominate the market.

ANS: A PTS: 1 REF: 39 OBJ: 3
BLM: Remember

22. In which type of market structure can few sellers exert substantial control over prices?
- monopolistic competition
 - oligopoly
 - perfect monopoly
 - pure monopoly

ANS: B PTS: 1 REF: 39 OBJ: 3
BLM: Remember

23. When a single company accounts for 100 percent of industry sales, it is an example of which type of market structure?
- a pure monopoly
 - an oligopoly
 - monopolistic competition
 - imperfect competition

ANS: A PTS: 1 REF: 40 OBJ: 3
BLM: Higher Order

24. Southern Ontario farmers have found it difficult to go into olive farming because olives imported from Europe are priced so much cheaper. Canadian farmers have to meet various climate challenges to grow olives and thus have higher expenses. Consumers prefer to buy the lower-priced imported olives rather than locally grown olives. The problems that make it unprofitable for an Ontario farmer to profitably become an olive farmer would be considered which of the following?
- a. a purchasing power equalizer
 - b. a market contractionary tool
 - c. an oligopolistic tool
 - d. a barrier to entry

ANS: D PTS: 1 REF: 40 OBJ: 3
BLM: Higher Order

25. If NBPower supplies all of the electricity to New Brunswick, NBPower is an example of which of the following?
- a. an oligopolistic monopoly
 - b. utilitarianism
 - c. an oligopoly
 - d. a pure monopoly

ANS: D PTS: 1 REF: 40 OBJ: 3
BLM: Higher Order

26. For a time, only Xerox could produce dry-paper copiers because Xerox held all the patents on the process. Until the patents expire, Xerox could be said to operate in which type of market structure?
- a. imperfect competitive
 - b. purely competitive
 - c. monopolistic
 - d. noncompetitive oligopoly

ANS: C PTS: 1 REF: 40 OBJ: 3
BLM: Higher Order

27. Which concept represents the quantity of a good or service that people are willing to buy at various prices?
- a. demand
 - b. market potential
 - c. supply
 - d. market share

ANS: A PTS: 1 REF: 42 OBJ: 4
BLM: Remember

28. Which of the following terms refers to the quantity of a product or service that businesses will make available at various prices?
- demand
 - market potential
 - supply
 - capacity

ANS: C PTS: 1 REF: 42 OBJ: 4
BLM: Remember

29. Which direction represents the slope of the demand curve?
- horizontal
 - upward and to the right
 - downward and to the left
 - downward and to the right

ANS: D PTS: 1 REF: 42 OBJ: 4
BLM: Remember

30. Which of the following directions describe the slope of the supply curve?
- downward and to the left
 - upward and to the right
 - horizontal
 - downward and to the right

ANS: B PTS: 1 REF: 42 OBJ: 4
BLM: Remember

31. Which of the following statements about demand and supply accurately describes the direction one of the curves will take if one variable is altered?
- The supply curve will shift to the left if taxes are decreased.
 - The demand curve will shift to the left if buyers' incomes increase.
 - The demand curve will shift to the right if the number of buyers decreases.
 - The supply curve will shift to the left if the number of suppliers increases.

ANS: A PTS: 1 REF: 42 OBJ: 4
BLM: Higher Order

32. Which of the following statements best describes how equilibrium varies?
- At prices below equilibrium, demand exceeds supply.
 - Government intervention is usually needed to achieve market equilibrium.
 - At prices above equilibrium, suppliers produce less than consumers are willing to buy.
 - A surplus of product pushes prices above equilibrium..

ANS: A PTS: 1 REF: 43 OBJ: 4
BLM: Higher Order

33. When demand and supply meet, the price of the product or service is established. What is this point called?
- equilibrium
 - interaction
 - price intersection
 - monetary value

ANS: A PTS: 1 REF: 43 OBJ: 4
BLM: Remember

34. Market equilibrium is described as which of the following?
- the point at which a nation reaches full employment
 - the time period used to determine the Consumer Price Index (CPI)
 - the point at which quantity supplied equals quantity demanded
 - the moment when profit is created

ANS: C PTS: 1 REF: 43 OBJ: 4
BLM: Remember

35. Which of the following is the most basic measure of economic growth?
- consumer price index
 - producer price index
 - gross domestic product
 - total of all goods and services produced

ANS: C PTS: 1 REF: 46 OBJ: 5
BLM: Remember

36. If you were told the output of goods and services produced in Luxembourg had increased by 6 percent in 2010, you would correctly refer to this increase as which type of growth?
- an example of recessionary growth
 - growth standardization
 - economic growth
 - nationalized growth

ANS: C PTS: 1 REF: 46 OBJ: 5
BLM: Higher Order

37. If the GDP of a country in 2010 was \$48 billion, what does this \$48 billion represent?
- the total value of all final goods and services produced during 2010
 - the actual growth of discretionary profit in 2010
 - the estimated growth of discretionary profit in the country for 2010
 - how much money the households in the country spent in 2010

ANS: A PTS: 1 REF: 46 OBJ: 5
BLM: Higher Order

38. Imagine that you were reading an international marketing text in which you learned that the GDP for one of the former members of the Soviet Union was \$1.56 billion. A few pages later in the same text, the book states that that nation's real GDP was \$800,000. From reading this information, what could you conclude?
- a. The second GDP measurement reflected only the value of the products produced in the nation and did not include the value of services.
 - b. The various methods used to calculate GDP do not produce the same results.
 - c. GDP is an approximation of the actual total value.
 - d. This former member of the Soviet Union had a high rate of inflation.

ANS: D PTS: 1 REF: 46 OBJ: 5
BLM: Higher Order

39. Assume the GDP in Argentina increased by 28 percent in 2010. The economists would adjust the current market prices to take into account inflated values. This adjusted GDP is called which type of the nation's GDP?
- a. real
 - b. frictional
 - c. interpreted
 - d. cyclical

ANS: A PTS: 1 REF: 46 OBJ: 5
BLM: Higher Order

40. Which type of GDP takes inflation into account and uses adjusted market prices?
- a. real
 - b. frictional
 - c. adjusted
 - d. cyclical

ANS: A PTS: 1 REF: 46 OBJ: 5
BLM: Remember

41. What are patterns of expansion and contraction in aggregate economic activity, as measured by GDP?
- a. business standards
 - b. cyclical adjustments
 - c. economic yields
 - d. business cycles

ANS: D PTS: 1 REF: 46 OBJ: 5
BLM: Remember

42. What is a decline in real GDP for at least two consecutive quarters called?
- a. economic downsizing
 - b. recession
 - c. depression
 - d. resource divestment

ANS: B PTS: 1 REF: 46 OBJ: 5
BLM: Remember

43. As soon as Kazakhstan, a former member of the Soviet Union, had experienced two consecutive quarterly declines in its gross national product, Kazakhstan was in which economic situation?
- regression
 - recession
 - adjustment period
 - depression

ANS: B PTS: 1 REF: 46 OBJ: 5
BLM: Higher Order

44. What is the name of the business cycle that follows a recession?
- upsizing
 - prosperity
 - inflation
 - recovery

ANS: D PTS: 1 REF: 46 OBJ: 5
BLM: Remember

45. If the national unemployment rate goes up, which of the following might be a contributing factor?
- Some people took a job transfer to another province.
 - Some people took a job right out of high school.
 - Some people are preparing for later employment by attending school.
 - Some people started a new job and their old position is vacant.

ANS: C PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

46. If, in 2010, 7.5 percent of a country's total work force was not working, but was actively seeking employment, this 7.5 percent represents which national figure?
- recessionary unemployment
 - unemployment rate
 - inflationary unemployment
 - position on the international unemployment scale

ANS: B PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

47. The unemployment rate is the percentage of the total work force that is not working but is engaged in which of the following activities?
- drawing unemployment cheques
 - preparing physically and mentally to begin work
 - actively looking for work
 - laid off, terminated, or downsized due to some economic activity outside of their control

ANS: C PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

48. Which of the following is a form of unemployment?
- a. unseasonal unemployment
 - b. fractional unemployment
 - c. cyclical unemployment
 - d. fiscal unemployment

ANS: C PTS: 1 REF: 48 OBJ: 5
BLM: Remember

49. Josh Loachim quit his job in advertising in Toronto and has moved to Calgary, where he is actively seeking employment. This is an example of which type of unemployment?
- a. frictional
 - b. fiscal
 - c. structural
 - d. cyclical

ANS: A PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

50. Laron Kelly recently quit his job as a car salesperson and is now trying to find a job with another car dealership. This is an example of which type of unemployment?
- a. structural
 - b. frictional
 - c. recessionary
 - d. fiscal

ANS: B PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

51. For the past 10 years, Kris Boja has been a welder for a local manufacturer. This morning her boss informed her that a robot would replace her. Boja's unemployment is an example of which type of unemployment?
- a. cyclical
 - b. mechanical
 - c. structural
 - d. frictional

ANS: C PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

52. Suppose that 50 percent of the labour force in a country is involved in the agricultural sector, but the economic growth in the nation comes from industry and tourism. What type of unemployment would such a mismatch of ability and job requirements cause?
- a. mechanical
 - b. frictional
 - c. structural
 - d. cyclical

ANS: C PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

53. Structural unemployment is unemployment that results from which of the following circumstances?
- the restructuring of an organization
 - the change in business cycles
 - a mismatch between the available jobs and the skills of available workers
 - people moving to new geographical areas

ANS: C PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

54. The labourers displaced due to assembly-line automation may not have the skills needed to operate the computerized machines that replaced them. This is an example of which type of unemployment?
- cyclical
 - operational
 - frictional
 - structural

ANS: D PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

55. If the tourism industry in a Canadian province had 43 percent unemployment due to an economic downturn that gripped the country, the workers in the tourism industry would be experiencing which of the following type of unemployment?
- seasonal
 - cyclical
 - structural
 - frictional

ANS: B PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

56. When the economy is in a recession, many companies must lay off workers, causing which type of unemployment?
- cultural
 - cyclical
 - frictional
 - structural

ANS: B PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

57. Each January, Lopez is laid off as soon as Christmas is over. She will be hired back sometime during the summer. In terms of unemployment, Lopez is a good example of which type of unemployment?
- frictional
 - structural
 - seasonal
 - fiscal

ANS: C PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

58. In PEI, jobs are plentiful during the summer months, but difficult to find in September once the tourists leave and many restaurants and inns close. People who work in the island's restaurants annually become unemployed in which way?
- structurally
 - geographically
 - frictionally
 - seasonally

ANS: D PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

59. Gracie Burlesford works for a peach grower in southern Ontario. In July, Burlesford was laid off because of a drought. What type of unemployment is this?
- frictional
 - structural
 - geographical
 - seasonal

ANS: D PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

60. What is a general upward movement of prices in the economy known as?
- purchase power acceleration
 - deflation
 - inflation
 - upsizing

ANS: C PTS: 1 REF: 48 OBJ: 5
BLM: Remember

61. Which of the following represent two types of inflation?
- demand-pull and cost-push
 - cost-pull and supply-push
 - demand-pull and supply-push
 - recessionary and recovery

ANS: A PTS: 1 REF: 48 OBJ: 5
BLM: Remember

62. Which type of inflation is occurring when the demand for goods and services is greater than the supply?
- a. demand-push
 - b. cost-push
 - c. demand-pull
 - d. supply-side

ANS: C PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

63. What does it mean if the annual inflation rate in a country was 8.1 percent?
- a. The people experienced demand-push inflation.
 - b. The people saw a decline in gross domestic product (GDP).
 - c. The people saw their purchasing power increase from what it was in the previous year.
 - d. The people saw their purchasing power decrease from what it was in the previous year.

ANS: D PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

64. If a nation experienced an inflation rate of about 12 percent and then, 5 years later, had an inflation rate of about 15 percent, which of the following statements best describes what was happening to purchasing power during that period?
- a. The purchasing power of businesses did not see a change throughout the period, but consumers did.
 - b. The average consumer's purchasing power was lower at the beginning of period than at the end.
 - c. The country was experiencing a recession, prices were universally high throughout the period, and purchasing power declined for everyone.
 - d. The average consumer's purchasing power was higher at the beginning of the period than at the end.

ANS: D PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

65. The price of a decorated three-tiered wedding cake from a local supermarket deli recently increased from \$105 to \$119. The supermarket manager said it was due entirely to increases in sugar and labour costs. The \$14 increase is an example of which of the following?
- a. deflation
 - b. poor resource utility
 - c. price gouging
 - d. inflation

ANS: D PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

66. Last year, a mother in a small African nation could buy a pound of flour for the Canadian equivalent of \$1.30. Six months ago, an identical pound of flour cost \$3.40. Today she would need \$5.60 to buy that pound of flour. This example of the general upward movement of prices is called which of the following?
- a. discretionary pricing
 - b. supply-side pricing
 - c. deflation
 - d. inflation

ANS: D PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

67. The price of a basket of groceries rises from \$30 to \$40 but your salary remains the same. This is an example of a decline in which of the following for you, personally?
- a. standard of living
 - b. purchasing power
 - c. cost of living index
 - d. GDP index

ANS: B PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

68. Which type of inflation is triggered by increases in production that push up the costs of final goods and services?
- a. supply-side
 - b. demand-push
 - c. cost-push
 - d. demand-side

ANS: C PTS: 1 REF: 49 OBJ: 5
BLM: Higher Order

69. If one of the reasons for the growing inflation rate is due to increases in production costs of goods and services that occurred as a result of a decline in a suitable labour force, this would be an example of which type of inflation?
- a. cost-push
 - b. supply-side
 - c. cost-pull
 - d. demand-push

ANS: A PTS: 1 REF: 49 OBJ: 5
BLM: Higher Order

70. Which of these is an index of the prices of a shopping basket of goods and services as published monthly by Statistics Canada?
- producer price index (PPI)
 - consumer price index (CPI)
 - inflation rate
 - wholesale cost index (WCI)

ANS: B PTS: 1 REF: 49 OBJ: 5
BLM: Remember

71. The consumer price index (CPI) is partially composed of which of the following?
- cars bought by a delivery company
 - food bought by a restaurant in order to prepare menu items
 - iron ore used by the steel industry
 - family recreation

ANS: D PTS: 1 REF: 49 OBJ: 5
BLM: Remember

72. Which of the following measures prices paid by producers and wholesalers for commodities, including raw materials and finished products?
- wholesale cost index
 - producer price index
 - consumer price index
 - raw material price index

ANS: B PTS: 1 REF: 49 OBJ: 5
BLM: Remember

73. To bring inflation under control, which combination of unemployment and growth may be necessary?
- high unemployment, high growth
 - high unemployment, low growth
 - low unemployment, high growth
 - low unemployment, moderate growth

ANS: B PTS: 1 REF: 50 OBJ: 6
BLM: Higher Order

74. Which of the following refers to the Bank of Canada's programs for controlling the amount of money in circulation?
- microeconomics
 - macroeconomics
 - monetary policy
 - fiscal policy

ANS: C PTS: 1 REF: 50 OBJ: 6
BLM: Remember

75. Which of the following organizations sells government securities, raises interest rates, and prints money?
- a. Canadian Revenue Agency
 - b. Department of Finance
 - c. chartered banks
 - d. Bank of Canada

ANS: D PTS: 1 REF: 50 OBJ: 6
BLM: Remember

76. The implementation of a contractionary policy by the Bank of Canada would result in which of the following?
- a. lower unemployment
 - b. increased economic growth
 - c. lower interest rates
 - d. lower inflation

ANS: D PTS: 1 REF: 50 OBJ: 6
BLM: Higher Order

77. Which of the following is the Bank of Canada implementing when it tightens the money supply by selling government securities or raising interest rates?
- a. fiscal reduction strategy
 - b. contractionary policy
 - c. retrenchment strategy
 - d. shrinkage policy

ANS: B PTS: 1 REF: 50 OBJ: 6
BLM: Remember

78. The Bank of Canada increases the growth of the money supply when it implements which of the following?
- a. fiscal reengineering
 - b. retrenchment strategy
 - c. expansionary policy
 - d. policy of fiscal augmentation

ANS: C PTS: 1 REF: 50 OBJ: 6
BLM: Remember

79. The implementation of an expansionary policy by the Bank of Canada would result in which of the following?
- a. higher unemployment
 - b. lower inflation
 - c. lower interest rates
 - d. decreased economic growth

ANS: C PTS: 1 REF: 50 OBJ: 6
BLM: Higher Order

80. When the government raises taxes on consumers and businesses, it is dealing with which type of policy?
- inflationary
 - monetary
 - fiscal
 - recessionary

ANS: C PTS: 1 REF: 51 OBJ: 6
BLM: Remember

81. What is fiscal policy concerned with?
- taxation and spending
 - credit and banking
 - investments and insurance
 - credit and spending

ANS: A PTS: 1 REF: 51 OBJ: 6
BLM: Remember

82. When the government decides to cut military spending, which type of policy is it implementing?
- monetary
 - microeconomic
 - fiscal
 - operational

ANS: C PTS: 1 REF: 51 OBJ: 6
BLM: Higher Order

83. Which of the following occurs if a country's total expenditures are higher than the revenues received from the taxes it gathers?
- federal budget deficit
 - national surplus
 - annual expenditure surplus
 - national priority deficit

ANS: A PTS: 1 REF: 51 OBJ: 6
BLM: Higher Order

84. If a government spends \$2.7 billion on government programs, and receives revenues of \$2.3 billion, what does the country have?
- a low GDP
 - a budget deficit
 - a high CPI
 - an expansionary policy

ANS: B PTS: 1 REF: 51 OBJ: 6
BLM: Higher Order

85. Which of the following situations occurs when government spending replaces spending by the private sector?
- public-sector inflation
 - demarketing
 - deficit spending
 - crowding out

ANS: D PTS: 1 REF: 51 OBJ: 6
BLM: Higher Order

86. If Parks Canada spends money on promoting the use of national parks as perfect sites for a summer vacation, then motels, campgrounds, and other tourist attractions in the private sector may become less attractive to consumers. If, as a result of the promotion, consumers spent more money on trips to the national parks and less money in the private sector for their vacations, what would have occurred?
- deficit spending
 - demarketing
 - crowding out
 - public-sector inflation

ANS: C PTS: 1 REF: 51 OBJ: 6
BLM: Higher Order

87. How is the national debt described?
- as the cumulative total owed to Canada by foreign countries
 - as the amount of money owed each year by the taxpayers
 - as the cumulative total of the government's annual budget deficits
 - as the total amount owed by corporations

ANS: C PTS: 1 REF: 51 OBJ: 6
BLM: Remember

88. The purchase of savings bonds by individuals allows the government to do what?
- eliminate crowding out
 - balance supply and demand
 - access funds that might otherwise have gone to the private sector
 - concentrate on microeconomics strategy

ANS: C PTS: 1 REF: 51 OBJ: 6
BLM: Remember

89. A retailer of computer games can focus on relationship management by engaging in which of the following practices?
- selling products that are cheaper but not always reliable
 - pricing to take advantage of customers' passions
 - using advertising that helps customers make impulse buying decisions
 - giving customers more than they expected, such as a reward once they have purchased 10 games

ANS: D PTS: 1 REF: 53 OBJ: 7
BLM: Higher Order

90. When Mary Robb purchased a dozen cupcakes for her son's birthday party, she was pleasantly surprised to find the box contained 13 cupcakes instead of the 12 she had paid for. The bakery used this technique to accomplish which of the following?
- to make sure the customer would not be concerned about product quality
 - to respond to competitive industries in the global marketplace
 - to cement its customer-supplier relationship with Robin Hood flour
 - to build, maintain, and enhance relationships with its customers

ANS: D PTS: 1 REF: 53 OBJ: 7
BLM: Higher Order

91. Which of the following strategies involves building, maintaining, and enhancing interactions with customers and other parties so as to develop long-term satisfaction through mutually beneficial partnerships?
- customer maximization
 - relationship management
 - a developing strategic alliance
 - profit maximization

ANS: B PTS: 1 REF: 53 OBJ: 7
BLM: Remember

92. Every time Tom buys a litre of milk he gets a stamp, which he sticks on a card he carries in his wallet. When he has 10 stamps, he gets a free litre of milk. This sort of program to encourage repeat business is a good example of which of the following?
- a developing strategic alliance
 - customer maximization
 - relationship management
 - profit maximization

ANS: C PTS: 1 REF: 53 OBJ: 7
BLM: Higher Order

93. Which of the following statements best describes strategic alliances?
- Strategic alliances are not associated with any form of relationship management.
 - Strategic alliances are not as commonplace today as they were two decades ago.
 - A company that is interested in maintaining, but not improving, its product and service quality is most likely to enter a strategic alliance.
 - A strategic alliance is sometimes called a strategic partnership.

ANS: D PTS: 1 REF: 53 OBJ: 7
BLM: Higher Order

94. Mexico requires all foreign companies operating there to have a local business partner. This is an example of which of the following?
- economic partnership
 - economic merger
 - transactional partnership
 - strategic alliance

ANS: D PTS: 1 REF: 53 OBJ: 7
BLM: Higher Order

95. A strategic alliance is sometimes called which of the following?
- strategic partnership
 - transactional partnership
 - economic partnership
 - economic merger

ANS: A PTS: 1 REF: 53 OBJ: 7
BLM: Remember

TRUE/FALSE

1. When an analyst is evaluating the construction industry in terms of interest rates, employment cycles, and the rate of new home building nationwide, he is looking at microeconomics.

ANS: F PTS: 1 REF: 32 OBJ: 1
BLM: Higher Order

2. An analyst at Merrill Lynch who is evaluating Home Depot as an investment for her clients is taking a microeconomics approach.

ANS: T PTS: 1 REF: 32 OBJ: 1
BLM: Higher Order

3. The factors of production are the goods produced by a manufacturing facility.

ANS: F PTS: 1 REF: 33 OBJ: 1
BLM: Remember

4. A market economy is also known as capitalism.

ANS: T PTS: 1 REF: 35 OBJ: 2
BLM: Remember

5. Canada, Great Britain, and Sweden are market economies.

ANS: F PTS: 1 REF: 35 OBJ: 2
BLM: Higher Order

6. China is a planned economy with very few entrepreneurs.

ANS: F PTS: 1 REF: 36 OBJ: 2
BLM: Higher Order

Chapter 2 Economics: Evolving Systems

7. A farmer's market where 60 farmers come weekly to sell the produce they grow in their gardens is an example of monopolistic competition.

ANS: F PTS: 1 REF: 39 OBJ: 3
BLM: Higher Order

8. It is difficult to enter a monopolistic competition market structure.

ANS: F PTS: 1 REF: 39 OBJ: 3
BLM: Higher Order

9. There are more companies in a monopolistic competition than in an oligopoly.

ANS: T PTS: 1 REF: 39 OBJ: 3
BLM: Remember

10. No true examples of a pure monopoly exist today.

ANS: F PTS: 1 REF: 40 OBJ: 3
BLM: Remember

11. The higher the price of a good or service, the greater the quantity demanded.

ANS: F PTS: 1 REF: 42 OBJ: 4
BLM: Remember

12. The higher the price of a good or service, the greater the amount a producer is willing to supply.

ANS: T PTS: 1 REF: 42 OBJ: 4
BLM: Remember

13. At the equilibrium point, quantity demanded equals quantity supplied.

ANS: T PTS: 1 REF: 43 OBJ: 4
BLM: Remember

14. It takes four consecutive quarters of decline in the GDP for economists to consider the economy to be in a recession.

ANS: F PTS: 1 REF: 46 OBJ: 5
BLM: Higher Order

15. Full employment means all those who want to work are employed.

ANS: T PTS: 1 REF: 48 OBJ: 5
BLM: Remember

Chapter 2 Economics: Evolving Systems

16. Because Jonathon Li has recently quit his job at GMC and is currently seeking work in the computer business, he would be described as structurally unemployed.

ANS: F PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

17. Leo Yoder lost his job as a result of a recession and would be described as experiencing cyclical unemployment.

ANS: T PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

18. Because Allyson Levi works in a vegetable processing plant and is out of work about six months a year due to the periodic harvest times, she can be described as seasonally unemployed.

ANS: T PTS: 1 REF: 48 OBJ: 5
BLM: Higher Order

19. An increase in the price of crude oil could trigger cost-push inflation.

ANS: T PTS: 1 REF: 49 OBJ: 5
BLM: Higher Order

20. Monetary policy deals with tax revenues and expenditures at the national level.

ANS: F PTS: 1 REF: 50 OBJ: 6
BLM: Remember

21. The Bank of Canada can print money and raise taxes.

ANS: F PTS: 1 REF: 50 OBJ: 6
BLM: Remember

22. When Parliament passes a law to raise individual tax rates, it is creating fiscal policy.

ANS: T PTS: 1 REF: 51 OBJ: 6
BLM: Higher Order

23. The national debt is the accumulation of deficits that have occurred in the past as a result of expenditures exceeding tax revenues.

ANS: T PTS: 1 REF: 51 OBJ: 6
BLM: Remember

24. Relationship management would benefit a company that provides janitorial cleaning services for businesses.

ANS: T PTS: 1 REF: 53 OBJ: 7
BLM: Higher Order

25. A strategic alliance is a cooperative agreement between a company and its banker.

ANS: F PTS: 1 REF: 53 OBJ: 7
BLM: Higher Order

SHORT ANSWER

1. What are the factors of production and why are they important?

ANS:
Factors of production include labour, capital, entrepreneurship, knowledge, and natural resources. They are important because they are the basic building blocks of business.

PTS: 1 REF: 33 OBJ: 1 BLM: Remember

2. What is the difference between a market economy and a command economy with respect to business ownership?

ANS:
In a market economy, businesses are privately owned, whereas in a command economy the government owns all or most enterprises.

PTS: 1 REF: 35-36 OBJ: 2 BLM: Higher Order

3. List the four types of market structures.

ANS:
pure monopoly, perfect (pure) competition, monopolistic competition, and oligopoly

PTS: 1 REF: 38-40 OBJ: 3 BLM: Remember

4. Which market structure is an ideal and does not really exist?

ANS:
perfect or pure competition

PTS: 1 REF: 38 OBJ: 3 BLM: Remember

5. What is the term used to describe the point at which customers' demands for a product equal the amount made available by the producer?

ANS:
the equilibrium point

PTS: 1 REF: 43 OBJ: 4 BLM: Higher Order

6. What is the name of the business cycle that follows a recessionary one?

ANS:
recovery

PTS: 1 REF: 46 OBJ: 5 BLM: Remember

7. List the four types of unemployment.

ANS:
frictional, structural, cyclical, and seasonal

PTS: 1 REF: 48 OBJ: 5 BLM: Remember

8. List the two types of inflation.

ANS:
demand-pull and cost-push

PTS: 1 REF: 48-49 OBJ: 5 BLM: Remember

9. What is the term used to describe what is happening when the government spends more on public transportation, and as a result, individuals spend less on private transportation?

ANS:
crowding out

PTS: 1 REF: 51 OBJ: 6 BLM: Higher Order

10. What kind of interaction is a DVD rental store using when it keeps records of a customer's rentals and gives a free rental after every 12th rental?

ANS:
relationship management

PTS: 1 REF: 53 OBJ: 7 BLM: Higher Order