

Test Bank for Business Essentials Canadian 7th Edition by Ebert Griffin Starke and Dracopoulos ISBN 0133138224 9780133138221

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Chapter 01: Understanding the Canadian Business System

Chapter 01 Multiple Choice Questions

1. Profit is

- what remains after business expenses are subtracted from business revenues.
- equal to the market value of shares in a company.
- equal to total revenue minus cash expenses.
- the amount of sales minus 50 percent.
- double the amount the company pays in taxes.

Difficulty: 1

QuestionID: 01-1-01

Page-Reference: 5

Skill: Knowledge

Objective: 1.1

Answer: what remains after business expenses are subtracted from business revenues.

2. Profit is

- the market value of shares of stock in a company.
- the level of expenses divided by the firm's assets.
- what remains after business expenses are subtracted from business revenues.
- gross revenue minus taxes a company pays.
- gross sales minus taxes a company pays.

Difficulty: 1
QuestionID: 01-1-02
Page-Reference: 5
Skill: Knowledge
Objective: 1.1

Answer: what remains after business expenses are subtracted from business revenues.

3. This week, Jessica's Variety Store had sales of \$4000, employees were paid \$1000, the cost of goods was \$1500, and rent was \$500. Profit for the week was

- \$3000.
- \$1000.
- \$4000.
- \$2000.
- \$1500.

Difficulty: 2
QuestionID: 01-1-03
Page-Reference: 5
Skill: Application
Objective: 1.1

Answer: \$1000.

4. How are provincial universities in Canada different from business firms?

- They do not seek to make a profit.
- They are not affected by the global environment.
- Their organizational boundaries are narrower than normal.
- They do not produce goods or services.
- They are more important to society than business firms.

Difficulty: 2
QuestionID: 01-1-04
Page-Reference: 5
Skill: Comprehension
Objective: 1.1

Answer: They do not seek to make a profit.

5. In a 2011 study, Forbes magazine ranked 134 countries in terms of how attractive they were to do business in. Where did Canada rank?

First

Second

Fifth

Twenty-fifth

Eighty-seventh

Difficulty: 2

QuestionID: 01-1-05

Page-Reference: 5

Skill: Knowledge

Objective: 1.1

Answer: First

6. Examples of businesses include all of the following except local supermarkets.

one-person businesses, like barbershops.

non-profit organizations.

large corporations like Canadian Pacific or Alcan Aluminum.

farms.

Difficulty: 2

QuestionID: 01-1-06

Page-Reference: 5

Skill: Comprehension

Objective: 1.1

Answer: non-profit organizations.

7. Most of the goods and services consumed in Canada are produced by countries in the European Union.

businesses in the U.S.

countries of the Pacific Rim.

the Canadian government.

business firms.

Difficulty: 1
QuestionID: 01-1-07
Page-Reference: 5
Skill: Comprehension
Objective: 1.1

Answer: business firms.

8. Not-for-profit organizations

are content with small profits, whereas business firms want large profits.

are more important than business firms.

use the funds they generate from government grants or the sale of goods or services to provide service to the public.

do not sell goods or services.

are not allowed to operate in the manufacturing sector.

Difficulty: 2
QuestionID: 01-1-08
Page-Reference: 5
Skill: Comprehension
Objective: 1.1

Answer: use the funds they generate from government grants or the sale of goods or services to provide service to the public.

9. Generally speaking, which one of the factors of production is most important?

Land

Labour Capital

Entrepreneurship

None of these

Difficulty: 2
QuestionID: 01-1-09
Page-Reference: 5-7
Skill: Knowledge
Objective: 1.2

Answer: None of these

10. If two people exchange an apple, they each still have just one apple, but if they exchange ideas, they now each have two ideas. This is an illustration of

- the importance of natural resources.
- the principle of specialization of labour.
- the difference between information and all the other factors of production.
- the importance of profit in market economies.
- all of these.

Difficulty: 2
QuestionID: 01-1-10
Page-Reference: 7
Skill: Comprehension
Objective: 1.2

Answer: the difference between information and all the other factors of production.

11. The key difference between economic systems is the different ways in which they manage

- the factors of production.
- the transportation of goods within their borders.
- government rules and regulations.
- the payment of workers.
- none of these answers is accurate.

Difficulty: 2
QuestionID: 01-1-11
Page-Reference: 7
Skill: Knowledge
Objective: 1.2

Answer: the factors of production.

12. An economic system is

- an agreement between countries that deals with free trade.
- the way in which a nation allocates its resources among its citizens.
- a government decree that requires certain goods and services to be provided.
- a long standing agreement between citizens and governments on how an economy is run.
- a large government department that oversees how the economy is running.

Difficulty: 2
QuestionID: 01-1-12
Page-Reference: 7
Skill: Knowledge
Objective: 1.2

Answer: the way in which a nation allocates its resources among its citizens.

13. In a command economy, the central government supports free enterprise in every way possible.
allocates all or most factors of production.
encourages citizens to buy shares of stock in small companies.
keeps its control activities to a minimum.
buys surpluses from private sector companies to keep prices from falling.

Difficulty: 2
QuestionID: 01-1-13
Page-Reference: 7
Skill: Knowledge
Objective: 1.2

Answer: allocates all or most factors of production.

14. In terms of factors of production, Imperial Oil's crude oil reserves are an example of _____, while market forecasts are an example of _____.
- labour; entrepreneurs
information; labour
capital; information
natural resources; information
information; natural resources

Difficulty: 2
QuestionID: 01-1-14
Page-Reference: 6-7
Skill: Comprehension
Objective: 1.2

Answer: natural resources; information

15. All of the following are factors of production except
natural resources.
labour.
capital.
entrepreneurs.
technology.

Difficulty: 2
QuestionID: 01-1-15
Page-Reference: 5-7
Skill: Knowledge
Objective: 1.2

Answer: technology.

16. Entrepreneurs are important because they
make lots of money.
are good at making decisions.
take risks to start new businesses.
are good managers.
are rich.

Difficulty: 2
QuestionID: 01-1-16
Page-Reference: 6
Skill: Comprehension
Objective: 1.2

Answer: take risks to start new businesses.

17. Elizabeth wants to set up a consulting business that specializes in mathematical problem solving. Which of the following factors of production would she require?
Capital
Labour
Information resources
Natural resources
All of these

Difficulty: 2
QuestionID: 01-1-17
Page-Reference: 5-7
Skill: Comprehension
Objective: 1.2

Answer: All of these

18. "Embrace the opportunities and accept the risks" is a phrase that best characterizes the _____ attitude.
entrepreneurial
capitalist
communist
socialist
mixed market

Difficulty: 2
QuestionID: 01-1-18
Page-Reference: 6
Skill: Comprehension
Objective: 1.2

Answer: entrepreneurial

19. Something that would contribute directly to improving labour as a factor of production would be
finding new oil reserves.
better education for more of the population.
increasing the purchasing power of employees.
programs designed to decrease unemployment.
finding more efficient ways to produce products.

Difficulty: 2
QuestionID: 01-1-19
Page-Reference: 5
Skill: Comprehension
Objective: 1.2

Answer: better education for more of the population.

20. Labour includes
everyone in a business.
only non-unionized employees.
only unionized employees.
only managers.
only workers who do physical work.

Difficulty: 2
QuestionID: 01-1-20
Page-Reference: 5
Skill: Knowledge
Objective: 1.2

Answer: everyone in a business.

21. Which of the following is correct with respect to the factors of production?
The "labour" factor recognizes that it is importance to have labour unions to offset the power of management.
"Capital" is a more important factor than "labour."
As the Canadian economy has become larger and more complex, the importance of entrepreneurs has declined.
Unlike land, labour, and capital, information can be shared without it being diminished.
Human resources is an example of the "natural resources" factor.

Difficulty: 2
QuestionID: 01-1-21
Page-Reference: 5-7
Skill: Comprehension
Objective: 1.2

Answer: Unlike land, labour, and capital, information can be shared without it being diminished.

22. Natural resources as a factor of production for mining are a practical consideration when a mining company considers
the ease with which ore could be mined.
the number of miners available to mine the ore.
the amount of capital required to build the mine.
the profit that can be made from mining the ore.
the number of customers who want to buy ore.

Difficulty: 3
QuestionID: 01-1-22
Page-Reference: 6
Skill: Comprehension
Objective: 1.2

Answer: the ease with which ore could be mined.

23. What is the difference between a command economy and a market economy?

A command economy is found only in communist countries, while a market economy is found only in capitalist countries.

A command economy is more efficient than a market economy.

A market economy gives greater "life satisfaction" to people.

A command economy relies on centralized government control of the factors of production, while in a market economy supply and demand determine production and allocation decisions.

There really are no significant differences between a command economy and a market economy.

Difficulty: 3

QuestionID: 01-1-23

Page-Reference: 7

Skill: Comprehension

Objective: 1.2

Answer: A command economy relies on centralized government control of the factors of production, while in a market economy supply and demand determine production and allocation decisions.

24. What can we say about the number of business-to-business (B2B) transactions compared to the number of business-to-consumer (B2C) transactions?

There are fewer B2B transactions because there are fewer businesses than there are consumers.

There are more B2B transactions than B2C transactions.

The number of B2B transactions must equal the number of B2C transactions.

It is not possible to determine whether the number of B2B transactions is less than or more than the number of B2C transactions because of industrial secrecy.

It is not possible to determine whether the number of B2B transactions is less than or more than the number of B2C transactions because of data limitations.

Difficulty: 2

QuestionID: 01-1-24

Page-Reference: 8

Skill: Comprehension

Objective: 1.2

Answer: There are more B2B transactions than B2C transactions.

25. The economic system in which producers and consumers control production and allocation decisions through supply and demand is called

- a centrally planned economy.
- privatization.
- a market economy.
- communism.
- socialism.

Difficulty: 2
QuestionID: 01-1-25
Page-Reference: 8
Skill: Knowledge
Objective: 1.2

Answer: a market economy.

26. Which country has a command economy?

- Australia
- Japan
- Canada
- Germany
- Cuba

Difficulty: 2
QuestionID: 01-1-26
Page-Reference: 7
Skill: Comprehension
Objective: 1.2

Answer: Cuba

27. Which of the following is correct with regard to the communist economic system?

- The centralized planning emphasis on capital equipment and military hardware has caused declines in the prices of consumer goods.
- Government ownership of the means of production is only temporary.
- Most government-operated enterprises are very efficient because of central planning.
- Overall production expands rapidly because of central planning.
- The government owns and operates all sources of production.

Difficulty: 2
QuestionID: 01-1-27
Page-Reference: 7
Skill: Comprehension
Objective: 1.2

Answer: The government owns and operates all sources of production.

28. Stanislav lives in a country where all the factors of production are owned by the government. The economic system in his country is

- communism.
- capitalism.
- mixed market.
- socialism.

it is not possible to tell with the information provided.

Difficulty: 2
QuestionID: 01-1-28
Page-Reference: 7
Skill: Comprehension
Objective: 1.2

Answer: communism.

29. John lives in a country where producers and consumers control production, and where allocation decisions are made through the mechanism of supply and demand. John lives in a country with a _____ economy.

- privatized
- socialist
- communist
- market

it is not possible to tell with the information given

Difficulty: 2
QuestionID: 01-1-29
Page-Reference: 8
Skill: Comprehension
Objective: 1.2

Answer: market

30. A GlobeScan poll showed that the highest support for the free market economy was found in
Japan.
China.
U.S.
Canada.
Brazil.

Difficulty: 2
QuestionID: 01-1-30
Page-Reference: 8
Skill: Knowledge
Objective: 1.2

Answer: China.

31. A major drawback to communism as an economic system is that
government control of the factors of production is only temporary.
people don't like communism.
individuals contribute according to their ability.
individuals receive economic benefits according to their needs.
production of goods and services is inefficient because of the lack of a profit incentive.

Difficulty: 3
QuestionID: 01-1-31
Page-Reference: 7
Skill: Comprehension
Objective: 1.2

Answer: production of goods and services is inefficient because of the lack of a profit incentive.

32. Command economies are most likely to be found in
the newly emerging economies of southeast Asia.
communist and socialist nations.
western European countries.
Japan.
Canada and the U.S.

Difficulty: 2
QuestionID: 01-1-32
Page-Reference: 7
Skill: Comprehension
Objective: 1.2

Answer: communist and socialist nations.

33. An economy that has a strong central government that controls labour, capital, and natural resources and has few entrepreneurs is a
market economy.
command economy.
free-enterprise economy.
capitalist economy.
oligopolistic economy.

Difficulty: 1

QuestionID: 01-1-33

Page-Reference: 7

Skill: Knowledge

Objective: 1.2

Answer: command economy.

34. Communism and socialism are
basic forms of market economies.
becoming more popular.
extreme opposites.
basic forms of command economies.
identical forms.

Difficulty: 2

QuestionID: 01-1-34

Page-Reference: 7

Skill: Knowledge

Objective: 1.2

Answer: basic forms of command economies.

35. Mexico allows producers and consumers to make production and allocation decisions through the mechanism of supply and demand. Such a system is called
socialism.
communism.
privatization.
nationalization.
a market economy.

Difficulty: 1
QuestionID: 01-1-35
Page-Reference: 8
Skill: Comprehension
Objective: 1.2

Answer: a market economy.

36. Socialist economies may stifle economic growth because
management positions in state-controlled industries are often filled on the basis of political considerations.
they have too few regulations concerning product safety.
they are found in countries where people don't have many skills.
they are usually found in countries with cold climates.
they encourage excessive unionization of employees.

Difficulty: 3
QuestionID: 01-1-36
Page-Reference: 8
Skill: Comprehension
Objective: 1.2

Answer: management positions in state-controlled industries are often filled on the basis of political considerations.

37. An economic system that permits private ownership and control of small businesses but where the government controls large critical industries is known as
a mixed economy.
socialism.
communism.
capitalism.
mercantilism.

Difficulty: 1
QuestionID: 01-1-37
Page-Reference: 8
Skill: Knowledge
Objective: 1.2

Answer: socialism.

38. Which of the following statements is correct?

Sweden is the best example of a country with a pure socialist economy.

A GlobeScan poll found that the greatest support for the free market economy was found among the citizens of India.

The United States is a pure capitalist economy.

Many countries in the world have a purely communist economy.

Under socialism, smaller businesses are often privately owned.

Difficulty: 3

QuestionID: 01-1-38

Page-Reference: 8

Skill: Comprehension

Objective: 1.2

Answer: Under socialism, smaller businesses are often privately owned.

39. Which of the following is correct with regard to the issue of different economic systems?

There is a general consensus that command economies are more efficient than market economies because centralized government can consider a wider range of economic factors when decisions are made.

In recent years, more and more countries have rejected communism and embraced more market-based economies.

Socialism is the most extensive command economic system because government owns all the major industries.

A GlobeScan poll of 20 000 people in 20 different countries showed that support for a free market economy was most pronounced in Singapore.

All of these are correct.

Difficulty: 2

QuestionID: 01-1-39

Page-Reference: 7-8

Skill: Comprehension

Objective: 1.2

Answer: In recent years, more and more countries have rejected communism and embraced more market-based economies.

40. Socialism is best described as

a kind of command economy in which the government owns and operates all industries.

a kind of command economy in which the government owns and operates large critical industries.

an economy that is free from any regulation or planning.

a market economy in which markets decide what, when, and how much to produce.

an economic system with elements of a market economy, but not a planned economy.

Difficulty: 2
QuestionID: 01-1-40
Page-Reference: 8
Skill: Comprehension
Objective: 1.2

Answer: a kind of command economy in which the government owns and operates large critical industries.

41. Market economies have all of the following characteristics, except that they
allow businesses to charge whatever they want for their products and services.
encourage entrepreneurship by offering profits as an incentive.
require government intervention in order to prosper.
rely on markets, not governments, to decide what, when, and for whom to produce.
allow customers free choice.

Difficulty: 2
QuestionID: 01-1-41
Page-Reference: 8
Skill: Comprehension
Objective: 1.2

Answer: require government intervention in order to prosper.

42. What is the difference between privatization and deregulation?
Research shows that deregulation yields higher economic performance than privatization.
Privatization only works in socialist countries.
Privatization means converting companies that are in financial trouble into government-controlled organizations.
The trend toward both privatization and deregulation slowed somewhat after the financial crisis of 2008.
There is no real difference between the two ideas.

Difficulty: 3
QuestionID: 01-1-42
Page-Reference: 8
Skill: Comprehension
Objective: 1.2

Answer: The trend toward both privatization and deregulation slowed somewhat after the financial crisis of 2008.

43. Canada is home to a(n) _____ economy.

mixed market

oligopolistic

socialist

market

command

Difficulty: 2

QuestionID: 01-1-43

Page-Reference: 8

Skill: Knowledge

Objective: 1.2

Answer: mixed market

44. Market economies are considered beneficial for small businesses because they provide small businesses with lots of government assistance and protection.

provide a central economic plan within which small businesses can easily prosper.

protect small businesses from the power of large corporations.

allow small businesses to fail.

allow the business to do whatever it wants as long as it doesn't break the law.

Difficulty: 2

QuestionID: 01-1-44

Page-Reference: 8

Skill: Comprehension

Objective: 1.2

Answer: allow the business to do whatever it wants as long as it doesn't break the law.

45. In which economic system will profit motivate entrepreneurs to use resources efficiently and to produce goods that consumers want?

A centrally planned economy

Communism

A market economy

Socialism

A barter economy

Difficulty: 1
QuestionID: 01-1-45
Page-Reference: 8
Skill: Knowledge
Objective: 1.2

Answer: A market economy

46. Jose is from Guatemala. He is unsure about the nature of business in Canada. You point out that a typical business in Canada operates the same as a typical business in

The People's Republic of China.

Poland.

Peru.

England.

Japan.

Difficulty: 3
QuestionID: 01-1-46
Page-Reference: 8
Skill: Comprehension
Objective: 1.2

Answer: England.

47. Which of the following is correct with respect to input and output markets?

In the input market, firms supply goods and services in response to demand on the part of households.

In the output market, firms buy resources from households, which then supply those resources.

Consumer buying patterns provide information that helps companies decide which products to produce.

Consumers are restricted in the companies they can work for.

Input and output markets exist only in communist countries.

Difficulty: 3
QuestionID: 01-1-47
Page-Reference: 8
Skill: Comprehension
Objective: 1.2

Answer: Consumer buying patterns provide information that helps companies decide which products to produce.

48. Which of the following is correct with respect to mixed market economies?

They have features that are not found in either command or market economies.

As a result of the financial crisis of 2008, there is a trend toward increased government regulation of business in mixed market economies.

Very few countries have this type of system.

There is a trend toward increased government ownership of business in mixed market economies.

The mixed market economy is the best type of economic system.

Difficulty: 2

QuestionID: 01-1-48

Page-Reference: 8

Skill: Comprehension

Objective: 1.2

Answer: As a result of the financial crisis of 2008, there is a trend toward increased government regulation of business in mixed market economies.

49. The federal government sold the Lester B. Pearson International Airport in Toronto to a group of entrepreneurs, which then set up the Greater Toronto Airports Authority. This sale is an example of
socialism.

freedom of choice.

entrepreneurship.

deregulation.

privatization.

Difficulty: 2

QuestionID: 01-1-49

Page-Reference: 8

Skill: Comprehension

Objective: 1.2

Answer: privatization.

50. Which of the following is correct with respect to privatization?

The TNT Post Group in the Netherlands has been converted from private to government ownership.

Privatization is most likely to occur in communist countries.

Privatization has been a general trend during the last decade, but some countries are going in the opposite direction and pursuing nationalization instead.

Several companies have been nationalized in Canada in recent years.

The recession of 2008 accelerated the trend toward privatization.

Difficulty: 3
QuestionID: 01-1-50
Page-Reference: 8
Skill: Comprehension
Objective: 1.2

Answer: Privatization has been a general trend during the last decade, but some countries are going in the opposite direction and pursuing nationalization instead.

51. The role of government in our economic system includes all of the following except
customers.
innovators.
competitors.
regulators.
taxation agents.

Difficulty: 2
QuestionID: 01-1-51
Page-Reference: 10-12
Skill: Knowledge
Objective: 1.3

Answer: innovators.

52. Sandy is responsible for monitoring compliance with regulations in her company. She needs to know that the important areas of government regulation are
protecting competition and upholding environmental regulations.
protecting social goals, upholding environmental regulations, and protecting shareholder rights.
protecting competition, protecting consumers, and upholding environmental regulations.
protecting competition, protecting consumers, protecting social goals, and protecting the environment.
protecting shareholder rights, and following business law.

Difficulty: 2
QuestionID: 01-1-52
Page-Reference: 10-11
Skill: Comprehension
Objective: 1.3

Answer: protecting competition, protecting consumers, protecting social goals, and protecting the environment.

53. The Canada Consumer Product Safety Act replaces the Hazardous Products Act.
Food and Drug Act.
Weights and Measures Act.
Advertising and Packaging Act.
Textile Labeling Act.

Difficulty: 2
QuestionID: 01-1-53
Page-Reference: 11
Skill: Knowledge
Objective: 1.3

Answer: Hazardous Products Act.

54. Which of the following is correct with regard to the Competition Act?

A company can cut prices in one region of Canada while selling at a higher price everywhere else even if this substantially lessens competition.

Businesses are generally satisfied that the Competition Bureau moves fairly quickly in approving or denying merger plans.

Pyramid selling is permitted as long as participant know they are involved in a pyramid selling scheme and they may not make any money from the scheme.

The mere existence of a conspiracy is assumed to be proof that competition has been reduced.

All of these are correct.

Difficulty: 3
QuestionID: 01-1-54
Page-Reference: 10
Skill: Comprehension
Objective: 1.3

Answer: The mere existence of a conspiracy is assumed to be proof that competition has been reduced.

55. Madeline is responsible for answering questions about what her company can do under the Competition Act. Which one of the following is allowed under the Act?

The return of surpluses by credit unions to their members

Pricing products unreasonably low to eliminate competition

Forming a merger or a monopoly that lessens competition

Refusing to sell to a retailer who will, in turn, sell the product significantly below the suggested retail price

Giving selective allowances and rebates to cover advertising expenses to specific retailers

Difficulty: 2
QuestionID: 01-1-55
Page-Reference: 10-11
Skill: Comprehension
Objective: 1.3

Answer: The return of surpluses by credit unions to their members

56. Which of the following is correct regarding the Competition Act?

The Act prohibits agreements between companies that reduce competition.

The government has to prove that agreements between companies actually reduce competition.

Recent changes to the Act have reduced fines for misleading marketing practices because it has been shown that these fines don't have any effect.

Surveys of business executives show that they think the Competition Bureau is actually quite quick in approving or denying merger requests.

All of these

Difficulty: 1
QuestionID: 01-1-56
Page-Reference: 10-11
Skill: Comprehension
Objective: 1.3

Answer: The Act prohibits agreements between companies that reduce competition.

57. Why are income taxes called progressive taxes?

Because poorer people spend proportionally more on necessities

Because the more one makes, a greater proportion of additional amounts is paid in income taxes

Because the more one makes, the higher the income tax rate that is applied to one's entire income

Because they increase total consumption

Because the more one progresses in a company, the more one pays in income taxes

Difficulty: 2
QuestionID: 01-1-57
Page-Reference: 12
Skill: Comprehension
Objective: 1.3

Answer: Because the more one makes, a greater proportion of additional amounts is paid in income taxes

58. Why are sales taxes called regressive taxes?

Because food and drugs are often exempt

Because the more one makes, the lower the rate of sales tax that is applied to one's purchases

Because poorer people pay a higher percentage of their income than richer people

Because it applies to sales taxes

Because they discourage the purchase of some products

Difficulty: 3

QuestionID: 01-1-58

Page-Reference: 12

Skill: Comprehension

Objective: 1.3

Answer: Because poorer people pay a higher percentage of their income than richer people

59. John has just received a rather handsome increase in salary, but he is upset because he feels that he should not be charged a higher rate of tax on this extra money. John is being taxed by a _____ tax system.

provincial

federal

progressive

restrictive

regressive

Difficulty: 2

QuestionID: 01-1-59

Page-Reference: 12

Skill: Knowledge

Objective: 1.3

Answer: progressive

60. Which of the following is correct with respect to the issue of government taxation?

Progressive revenue taxes are harder on low-income people than on high-income people.

Revenue taxes are designed primarily to encourage people to buy certain kinds of goods and avoid buying other kinds.

Restrictive taxes prevent businesses from expanding.

Regressive revenue taxes are levied at the same rate regardless of a person's income.

All of the statements are correct.

Difficulty: 2
QuestionID: 01-1-60
Page-Reference: 12
Skill: Comprehension
Objective: 1.3

Answer: Regressive revenue taxes are levied at the same rate regardless of a person's income.

61. The GST is considered a regressive tax because

food and drugs are often exempt.

the more a person makes, the lower the rate of sales tax applied to that person's purchase.

it is unfair.

poorer people pay a higher percentage of their income than richer people.

it is designed to discourage the purchase of certain products.

Difficulty: 2
QuestionID: 01-1-61
Page-Reference: 12
Skill: Comprehension
Objective: 1.3

Answer: poorer people pay a higher percentage of their income than richer people.

62. Incentive programs are designed to

encourage families to have more babies.

encourage businesses to locate in economically depressed parts of the country.

create "corporate welfare bums."

encourage families to move to depressed parts of the country.

reimburse businesses for making unprofitable but necessary products.

Difficulty: 2
QuestionID: 01-1-62
Page-Reference: 12
Skill: Comprehension
Objective: 1.3

Answer: encourage businesses to locate in economically depressed parts of the country.

63. Which law forbids most monopolies in Canada?

Consumer Protection Act

Lobbying Act

Fair Trade Act

Competition Act

Environmental Contaminants Act

Difficulty: 1

QuestionID: 01-1-63

Page-Reference: 10

Skill: Knowledge

Objective: 1.3

Answer: Competition Act

64. When the government of Canada prevented the merger of the Royal Bank and the Bank of Montreal, this was an application of the _____ Act.

Fair Trade

Consumer Protection

CRTC

Competition

Bank Act

Difficulty: 2

QuestionID: 01-1-64

Page-Reference: 10

Skill: Comprehension

Objective: 1.3

Answer: Competition

65. Nutrition labeling and claims are intended to provide consumers with information to aid them in the selection of a healthy diet aimed at reducing risk of premature illness and death due to diet-related chronic diseases. Insufficient labeling is a violation of which act?

Food and Drug Act

Weights and Measures Act

Advertising and Packaging Act

Textile Labeling Act

Consumer Protection Act

Difficulty: 2
QuestionID: 01-1-65
Page-Reference: 11
Skill: Knowledge
Objective: 1.3

Answer: Food and Drug Act

66. Which of the following statements is most correct with respect to government in its role as regulator?

A business complains that the Competition Bureau is too slow in approving or denying merger plans.

The government really has very little power in its role as regulator.

Because of the move toward deregulation, federal and provincial governments have become less and less involved in regulating business activity.

The main areas of government regulation of business are achieving social goals, protecting consumers, and providing assistance to small business firms.

Studies have shown that government regulation reduces the effectiveness of business firms.

Difficulty: 2
QuestionID: 01-1-66
Page-Reference: 10
Skill: Comprehension
Objective: 1.3

Answer: A business complains that the Competition Bureau is too slow in approving or denying merger plans.

67. When Labatt Brewing sales representatives gave money to store operators who agreed to not lower prices on some brands of beer, the company was prosecuted for engaging in

bait-and-switch advertising.

resale price maintenance.

a pyramid scheme.

selling mislabeled products.

a violation of the Beer Act.

Difficulty: 2
QuestionID: 01-1-67
Page-Reference: 11
Skill: Comprehension
Objective: 1.3

Answer: resale price maintenance.

68. The three main ways in which business can influence government policy are advertising, lobbyists, and trade associations.

political contributions, letters to the editors of newspapers, and advertising.

advertising, trade associations, and political contributions.

trade associations, lobbyists, and letters to the editors of newspapers.

lobbyists, political contributions, and advertising.

Difficulty: 2

QuestionID: 01-1-68

Page-Reference: 12-13

Skill: Comprehension

Objective: 1.3

Answer: advertising, lobbyists, and trade associations.

69. If a semiconductor firm is opening a new manufacturing facility in Canada and is looking for ways to better influence government policy in their industry, it could

hire a lobbyist or join a trade association.

obtain a government contract for supplies and equipment.

ensure worker safety in its business facilities.

keep its manufacturing plants in Canada.

obtain export business for the new facility.

Difficulty: 2

QuestionID: 01-1-69

Page-Reference: 12

Skill: Comprehension

Objective: 1.3

Answer: hire a lobbyist or join a trade association.

70. The federal Lobbying Act requires lobbyists to register with the Department of Consumer and Commercial Relations.

contribute a minimum of \$10 000 to political campaigns.

attend at least two sessions in the House of Commons each year.

report on their communications with designated public office holders.

meet with members of Parliament on a regular basis.

Difficulty: 2
QuestionID: 01-1-70
Page-Reference: 12
Skill: Knowledge
Objective: 1.3

Answer: report on their communications with designated public office holders.

71. Suppose that several microelectronics manufacturers want to set up a trade association. They need to know that trade associations are allowed to do all of the following except

- allocate markets for their members.
- influence the kind of legislation that is passed.
- conduct training programs relevant to the industry.
- arrange trade shows.
- publish newsletters featuring articles on new products.

Difficulty: 2
QuestionID: 01-1-71
Page-Reference: 13
Skill: Comprehension
Objective: 1.3

Answer: allocate markets for their members.

72. The price at which the quantity of goods demanded and the quantity of goods supplied are equal is referred to as

- the going rate.
- the point-of-no-return price.
- the market price.
- the better price.
- the best price.

Difficulty: 2
QuestionID: 01-1-72
Page-Reference: 13
Skill: Knowledge
Objective: 1.4

Answer: the market price.

73. The term "demand" refers to
the stock exchange.
the willingness and ability of buyers to purchase a product or service.
the willingness and ability of businesses to sell a product or service.
the willingness of buyers to accept high prices for high quality goods.
the willingness of government to sell goods and services.

Difficulty: 2
QuestionID: 01-1-73
Page-Reference: 13
Skill: Knowledge
Objective: 1.4

Answer: the willingness and ability of buyers to purchase a product or service.

74. What is "demand"?
The idea that buyers will purchase more of a product as the price drops
The price and quantity of a product at which the quantity demanded is equal to the quantity supplied
The idea that producers will offer more of a product as the price rises
The willingness and ability of buyers to purchase a product
None of these

Difficulty: 2
QuestionID: 01-1-74
Page-Reference: 13
Skill: Knowledge
Objective: 1.4

Answer: The willingness and ability of buyers to purchase a product

75. With regard to demand and supply in a market economy, it is correct to say that
demand refers to the price that consumers are willing to pay for a product.
the demand and supply schedule indicates how many units of a given product will be sold at different prices.
demand and supply curves are used to determine the demand and supply schedule.
equilibrium prices are only rarely achieved.
if a seller tried to increase profits by making more products to sell, the result would be a more efficient use of resources
because economies of scale would be achieved.

Difficulty: 2
QuestionID: 01-1-75
Page-Reference: 13
Skill: Comprehension
Objective: 1.4

Answer: the demand and supply schedule indicates how many units of a given product will be sold at different prices.

76. The law of demand states that
producers will offer more of a product as the price falls.
demand and supply meet at an equilibrium point.
buyers will purchase more of a product as the price falls.
producers will offer more of a product as the price rises.
buyers will purchase more of a product as the price rises.

Difficulty: 1
QuestionID: 01-1-76
Page-Reference: 13
Skill: Knowledge
Objective: 1.4

Answer: buyers will purchase more of a product as the price falls.

77. The law of supply states that
buyers will purchase more of a product as the price falls.
demand and supply meet at an equilibrium point.
producers will offer more of a product as the price rises.
producers will offer more of a product as the price falls.
buyers will purchase more of a product as the price rises.

Difficulty: 1
QuestionID: 01-1-77
Page-Reference: 13
Skill: Knowledge
Objective: 1.4

Answer: producers will offer more of a product as the price rises.

78. What is "supply"?

The idea that sellers will sell more of a product as the price increases

The price and quantity of a product at which the quantity demanded is equal to the quantity supplied

The idea that buyers will want less of a product as the price increases

The willingness and ability of producers to offer a good or service for sale

None of these

Difficulty: 2

QuestionID: 01-1-78

Page-Reference: 13

Skill: Knowledge

Objective: 1.4

Answer: The willingness and ability of producers to offer a good or service for sale

79. Ian, the owner of 5-for-1 Pizza, has noticed that when he increases the price of his pizzas by \$2.00, the number of pizzas that he sells drops by 30 percent. Ian has discovered

the law of supply and demand.

the supply curve.

the demand curve.

the law of supply.

the law of demand.

Difficulty: 1

QuestionID: 01-1-79

Page-Reference: 13

Skill: Comprehension

Objective: 1.4

Answer: the law of demand.

80. Kristine discovered that when she dropped the price of her paintings, more people were asking her to create paintings for them. Kristine is experiencing

the law of supply and demand.

market price variations.

the law of supply.

economic justice.

the law of demand.

Difficulty: 2
QuestionID: 01-1-80
Page-Reference: 13
Skill: Comprehension
Objective: 1.4

Answer: the law of demand.

81. A demand and supply schedule
allows assessment of the relationship between different levels of demand and supply at different prices.
describes the supply for a product.
describes the demand for a product.
is a formula by which one determines market equilibrium.
is the contractual agreement made between the buyer and seller.

Difficulty: 2
QuestionID: 01-1-81
Page-Reference: 13
Skill: Comprehension
Objective: 1.4

Answer: allows assessment of the relationship between different levels of demand and supply at different prices.

82. Which term is used to identify the willingness and ability of buyers to purchase a product?

- Obligation
- Demand
- Wealth
- Profits
- Prosperity

Difficulty: 1
QuestionID: 01-1-82
Page-Reference: 13
Skill: Knowledge
Objective: 1.4

Answer: Demand

83. A producer of automobile batteries notes that the price of batteries has risen over each of the past three years. The firm decides to expand its battery production. This illustrates

- the law of supply.
- the law of market price.
- the law of equilibrium.
- the law of demand.
- the law of supply and demand.

Difficulty: 2

QuestionID: 01-1-83

Page-Reference: 13

Skill: Comprehension

Objective: 1.4

Answer: the law of supply.

84. The point at which the quantity of a product or service demanded is the same as the quantity supplied is called

- the surplus point.
- the equilibrium point.
- the supply point.
- the profit point.
- the demand point.

Difficulty: 1

QuestionID: 01-1-84

Page-Reference: 13

Skill: Knowledge

Objective: 1.4

Answer: the equilibrium point.

85. At the point where the supply curve crosses the demand curve on a graph, it could be said that

- no profits will be made.
- all products offered for sale will be sold.
- a shortage will result if the price is too low.
- no sales will be made.
- a surplus will result if the price is too low.

Difficulty: 1
QuestionID: 01-1-85
Page-Reference: 13
Skill: Comprehension
Objective: 1.4

Answer: all products offered for sale will be sold.

86. The points on a curve showing the relationship between the price of a good or service and the quantity of that good or service willing to be produced is known as the
equilibrium curve.
demand curve.
balance curve.
variable price curve.
supply curve.

Difficulty: 1
QuestionID: 01-1-86
Page-Reference: 13
Skill: Knowledge
Objective: 1.4

Answer: supply curve.

87. The points on a curve showing the relationship between the price of a good or service and the quantity of that good or service which customers will purchase is known as the
variable price curve.
equilibrium curve.
demand curve.
supply curve.
balance curve.

Difficulty: 1
QuestionID: 01-1-87
Page-Reference: 13
Skill: Knowledge
Objective: 1.4

Answer: demand curve.

88. Equilibrium in the market is attained when
the laws of supply and demand interact to set the price and quantity of a product at which buyers and sellers agree.
there are no dramatic changes in the market over time.
suppliers are willing to produce the quantity demanded.
no single firm has more than 50 percent of the market.
consumers are willing to pay the price being charged.

Difficulty: 2
QuestionID: 01-1-88
Page-Reference: 13
Skill: Comprehension
Objective: 1.4

Answer: the laws of supply and demand interact to set the price and quantity of a product at which buyers and sellers agree.

89. The price at which the quantity of a product willing to be purchased by customers and the quantity of product willing to be made by a producer are equal is known as
the break-even price.
the oligopoly price.
the balanced price
the elastic price.
either the market price or the equilibrium price.

Difficulty: 2
QuestionID: 01-1-89
Page-Reference: 13
Skill: Knowledge
Objective: 1.4

Answer: either the market price or the equilibrium price.

90. If the equilibrium point of 5-for-1 Pizza is 2000 pizzas per week and \$10.00 per pizza, and the owner decides to make 2200 pizzas and sell them at the same price, what is the likely outcome?
The business will have less expenses and also have greater profit.
The business will have a shortage.
The business will make more profit.
The business will have a surplus.
The business will have less expenses but no more profit.

Difficulty: 2
QuestionID: 01-1-90
Page-Reference: 14
Skill: Comprehension
Objective: 1.4

Answer: The business will have a surplus.

91. 5-for-1 Pizza is operating at the point where the supply curve intersects the demand curve. If the owner decides to increase the price and not change the production level, what will result?

- A shortage
- A surplus
- More profit
- A shift in the supply curve
- A shift in the demand curve

Difficulty: 2
QuestionID: 01-1-91
Page-Reference: 14
Skill: Comprehension
Objective: 1.4

Answer: A surplus

92. The market research department of BSX Corp. estimated that 5000 CDs would be purchased at a price of \$8.00 each. As it turned out, the demand was 6000. The company is in a(n) _____ condition.

- shortage
- growth
- inflation
- surplus
- depression

Difficulty: 2
QuestionID: 01-1-92
Page-Reference: 14
Skill: Comprehension
Objective: 1.4

Answer: shortage

93. If the market for chocolate was at the equilibrium point and suddenly half of the chocolate in the world disappeared, what would be the immediate effect?

The price would increase due to a shortage.

The price would decrease due to market equilibrium.

The price would increase due to a surplus.

The price would decrease due to a surplus.

There would be no change in either price or demand.

Difficulty: 2

QuestionID: 01-1-93

Page-Reference: 14

Skill: Comprehension

Objective: 1.4

Answer: The price would increase due to a shortage.

94. Which of the following is correct with respect to the issue of supply and demand?

A demand curve shows that consumers usually demand products of higher quality.

A supply curve shows that businesses will supply more units of a product, but will lower the level of product quality.

It is difficult to achieve an equilibrium price.

When the quantity demanded exceeds the amount supplied, businesses shut down.

None of the statements are correct.

Difficulty: 2

QuestionID: 01-1-94

Page-Reference: 13

Skill: Comprehension

Objective: 1.4

Answer: None of the statements are correct.

95. An exchange process between buyers and sellers of a particular good or service is known as a market.

economic trade.

mercantilism.

supply utility.

bartering.

Difficulty: 2
QuestionID: 01-1-95
Page-Reference: 13
Skill: Knowledge
Objective: 1.4

Answer: a market.

96. In the production of wheat, the law of demand states that buyers will purchase more wheat as the price decreases. reflects the farmer's desire to increase wheat production. comes into play when farmers produce a bumper crop of wheat. refers to the exchange process between the farmer and the buyer of wheat. states that at very high prices, there will be no supply.

Difficulty: 2
QuestionID: 01-1-96
Page-Reference: 13
Skill: Comprehension
Objective: 1.4

Answer: states that buyers will purchase more wheat as the price decreases.

97. In economic terms, a "market" is available in capitalist nations, but not in communist nations. located where buyers can most easily access it. the physical location (for example, a grocery store) where exchanges take place between buyers and sellers. an exchange process between sellers and buyers. all of these.

Difficulty: 2
QuestionID: 01-1-97
Page-Reference: 13
Skill: Knowledge
Objective: 1.4

Answer: an exchange process between sellers and buyers.

98. What is likely to happen when demand for a commodity is high?

Consumers will try to find substitutes for the commodity.

The price of the commodity will rise.

Criminal behaviour increases with regard to the commodity (e.g., stealing) .

The price of substitute commodities will increase.

All of these statements are correct.

Difficulty: 2

QuestionID: 01-1-98

Page-Reference: 14

Skill: Comprehension

Objective: 1.4

Answer: All of these statements are correct.

99. Tom, a real estate agent, wants to convince a potential customer where the price should be set to sell their home.

Tom could use a

variable cost curve.

demand and supply schedule.

supply curve.

demand curve.

property analysis.

Difficulty: 2

QuestionID: 01-1-99

Page-Reference: 13

Skill: Comprehension

Objective: 1.4

Answer: demand and supply schedule.

100. A new sales tax has the effect of shifting the supply curve upward. This will generally move the equilibrium point down and to the left.

up and to the right.

down and to the right.

up and to the left.

it has no effect on the equilibrium point.

Difficulty: 2
QuestionID: 01-1-100
Page-Reference: 13
Skill: Comprehension
Objective: 1.4

Answer: up and to the left.

101. Private enterprise requires which four elements to function effectively?

Communism, capitalism, socialism, and privatization

The right to product safety, consumer choice, freedom of information, and no government intervention in business

Land, labour, capital, and entrepreneurship

Supply, demand, equilibrium, and monopoly

Private property rights, freedom of choice, profits, and competition

Difficulty: 2
QuestionID: 01-1-101
Page-Reference: 14-15
Skill: Knowledge
Objective: 1.5

Answer: Private property rights, freedom of choice, profits, and competition

102. After checking out a new car deal at her local GM Canada dealership, Sally decided to buy one. We can conclude that

Sally exercised her freedom of choice.

General Motors exercised its freedom of choice.

both General Motors and Sally exercised their freedom of choice.

this example doesn't relate to freedom of choice.

neither General Motors nor Sally exercised their freedom of choice.

Difficulty: 2
QuestionID: 01-1-102
Page-Reference: 14
Skill: Comprehension
Objective: 1.5

Answer: both General Motors and Sally exercised their freedom of choice.

103. Market economies that rely on a private enterprise system maintain that the creation of wealth should be the concern of
business firms.
labour unions.
the government.
work teams.
individuals.

Difficulty: 1
QuestionID: 01-1-103
Page-Reference: 14
Skill: Comprehension
Objective: 1.5

Answer: individuals.

104. _____ must be present if companies are going to be motivated to offer consumers lower prices.
Government regulations
Freedom of choice
Competition
Profits
Freedom of choice and competition

Difficulty: 1
QuestionID: 01-1-104
Page-Reference: 15
Skill: Knowledge
Objective: 1.5

Answer: Competition

105. A motive to start a business is _____, while _____ creates the need to run the business efficiently.
profit; government
money; government
profit; pride
profit; competition
competition; profit

Difficulty: 2
QuestionID: 01-1-105
Page-Reference: 14-15
Skill: Knowledge
Objective: 1.5

Answer: profit; competition

106. Individual ownership of property is a key element in the private enterprise system.

a planned economy.

socialism.

the factors of production.

communism.

Difficulty: 2
QuestionID: 01-1-106
Page-Reference: 14
Skill: Comprehension
Objective: 1.5

Answer: the private enterprise system.

107. One outcome of competition is that business firms usually develop a monopoly.

can ignore "price wars".

have unrestricted access to natural resources.

must operate efficiently.

reduce their need for expansion capital.

Difficulty: 2
QuestionID: 01-1-107
Page-Reference: 15
Skill: Comprehension
Objective: 1.5

Answer: must operate efficiently.

108. What provides the motivation for an entrepreneur to operate his or her business efficiently?

The right to vote

Private property rights

Competition

Privatization

Freedom of choice

Difficulty: 1

QuestionID: 01-1-108

Page-Reference: 15

Skill: Knowledge

Objective: 1.5

Answer: Competition

109. Which of the following is correct?

In perfect competition, most firms in an industry are large.

In monopolistic competition, there are fewer sellers than in perfect competition but still many buyers.

All things considered, perfect competition is the ideal situation.

In order for an oligopoly to exist, there must not be more than three sellers.

In a monopoly, the firm that is the only supplier does not have to worry about how much consumer demand will fall as it raises its prices.

Difficulty: 3

QuestionID: 01-1-109

Page-Reference: 15

Skill: Comprehension

Objective: 1.5

Answer: In monopolistic competition, there are fewer sellers than in perfect competition but still many buyers.

110. The four degrees of competition include all of the following except

pure competition.

monopolistic competition.

monopolies.

oligopolies.

pure monopolistic competition.

Difficulty: 2
QuestionID: 01-1-110
Page-Reference: 15-16
Skill: Knowledge
Objective: 1.5

Answer: pure monopolistic competition.

111. Natural cork lost its _____ when a new technology allowed wine bottles to be sealed with plastic corks.

- perfect competition
- product differentiation
- monopoly
- monopolistic competition
- oligopoly

Difficulty: 1
QuestionID: 01-1-111
Page-Reference: 16
Skill: Knowledge
Objective: 1.5

Answer: monopoly

112. An outcome of competition is that business firms must operate efficiently.

- have unrestricted access to natural resources.
- reduce their need for expansion capital.
- develop a monopoly.
- can drop out of the pricing war unnoticed.

Difficulty: 2
QuestionID: 01-1-112
Page-Reference: 14
Skill: Comprehension
Objective: 1.5

Answer: must operate efficiently.

113. Brown Company wants to have an advantage over its competitors. To gain this advantage, it must develop a product that is either _____ or of _____ than that of the competition.

lower priced; equal quality

lower priced; higher quality

priced the same; equal quality

priced the same; lower quality

higher priced; equal quality

Difficulty: 2

QuestionID: 01-1-113

Page-Reference: 15

Skill: Knowledge

Objective: 1.5

Answer: lower priced; higher quality

114. When individual firms are small and the number of firms is large, this describes which degree of competition?

Selective competition

Monopolistic competition

Monopoly

Perfect competition

Oligopoly

Difficulty: 2

QuestionID: 01-1-114

Page-Reference: 15

Skill: Comprehension

Objective: 1.5

Answer: Perfect competition

115. Bob owns the St. Paul Street one-stop convenience store, 1 of 70 convenience stores in his region. Which degree of competition is Bob involved in?

Monopolistic competition

Oligopoly

Perfect competition

Oligopolistic competition

Monopoly

Difficulty: 2
QuestionID: 01-1-115
Page-Reference: 15
Skill: Comprehension
Objective: 1.5

Answer: Perfect competition

116. In a market with perfect competition
buyers and sellers do not know the price structure of the market.
price is set by supply and demand.
there are very few sellers.
firms are relatively large.
products have very few similarities.

Difficulty: 2
QuestionID: 01-1-116
Page-Reference: 15
Skill: Comprehension
Objective: 1.5

Answer: price is set by supply and demand.

117. Which one of the following is the best example of perfect competition?

Agricultural industry
Automobile industry
Utility industry
Clothing industry
Soft drink industry

Difficulty: 2
QuestionID: 01-1-117
Page-Reference: 15
Skill: Comprehension
Objective: 1.5

Answer: Agricultural industry

118. McDonnell Douglas, a manufacturer of large commercial aircraft, raises its prices of aircraft by 10 percent. Boeing, another manufacturer of large commercial aircraft, raises its prices by 9 percent. Airbus, a third manufacturer of large commercial aircraft, follows with an increase of 9.5 percent. Each of these companies is practicing a type of pricing strategy characteristic of

- controlled competition.
- monopolistic competition.
- an oligopoly.
- perfect competition.
- a monopoly.

Difficulty: 3
QuestionID: 01-1-118
Page-Reference: 15
Skill: Comprehension
Objective: 1.5

Answer: an oligopoly.

119. In a given national market, only five firms make and distribute little red wagons. This illustrates which degree of competition?

- Monopoly
- Selective competition
- Oligopoly
- Monopolistic competition
- Perfect competition

Difficulty: 2
QuestionID: 01-1-119
Page-Reference: 15
Skill: Comprehension
Objective: 1.5

Answer: Oligopoly

120. Competition like that between Tide and Cheer, Coke and Pepsi, and Sears and Ralph Lauren is

- oligopolistic competition.
- monopolistic competition.
- oligopoly.
- perfect competition.
- monopoly.

Difficulty: 2
QuestionID: 01-1-120
Page-Reference: 15
Skill: Comprehension
Objective: 1.5

Answer: monopolistic competition.

121. Which of the following businesses has a natural monopoly?

Your provincial electric company

Via Rail

A Chapters bookstore

Pepsi

De Beers Diamonds

Difficulty: 2
QuestionID: 01-1-121
Page-Reference: 16
Skill: Comprehension
Objective: 1.5

Answer: Your provincial electric company

122. Bailey Wear manufactures children's clothing. The company is able to set its prices higher than its competitors because of the fine material it uses and the attention it pays to the quality of the sewing. Bailey Wear is operating in a competitive environment of

- monopolistic competition.
- perfect competition.
- oligopolistic competition.
- oligopoly.
- monopoly.

Difficulty: 2
QuestionID: 01-1-122
Page-Reference: 15
Skill: Comprehension
Objective: 1.5

Answer: monopolistic competition.

123. Competition in which there are many buyers, a lot of product differentiation, and relative ease of entry or exit of the market is known as
monopoly.
oligopolistic competition.
oligopoly.
perfect competition.
monopolistic competition.

Difficulty: 2

QuestionID: 01-1-123

Page-Reference: 15

Skill: Knowledge

Objective: 1.5

Answer: monopolistic competition.

124. Which of the following is correct regarding monopolistic competition?

There are many competitors in the industry.

Products are differentiated.

Competitors can enter and leave the market easily.

Competitors may be large or small.

All of these statements are correct.

Difficulty: 3

QuestionID: 01-1-124

Page-Reference: 15

Skill: Comprehension

Objective: 1.5

Answer: All of these statements are correct.

125. When there are a handful of very large sellers, market entry is difficult, and a company can have a major impact on the product price, this is a situation known as

perfect competition.

monopoly.

oligopoly.

monopolistic competition.

free market enterprise.

Difficulty: 2
QuestionID: 01-1-125
Page-Reference: 15
Skill: Knowledge
Objective: 1.5

Answer: oligopoly.

126. In the market for breakfast cereals, a few large producers, such as General Mills, Post, Quaker, and Kellogg, dominate the market. This best describes which of the following?

- Perfect competition
- Monopolistic competition
- Limited cartel
- Monopoly
- Oligopoly

Difficulty: 2
QuestionID: 01-1-126
Page-Reference: 15
Skill: Comprehension
Objective: 1.5

Answer: Oligopoly

127. In a(n) _____, individual firms are small and the number of such firms is large.

- mixed market
- oligopoly
- perfect competition
- monopoly
- monopolistic competition

Difficulty: 1
QuestionID: 01-1-127
Page-Reference: 15
Skill: Knowledge
Objective: 1.5

Answer: perfect competition

128. Computers B Us is a manufacturer of customized microcomputers. They are able to set their prices higher than competitors because they can assemble a computer to a customer's exact specifications. Computers B Us is operating in a competitive environment of

- oligopolistic competition.
- perfect competition.
- monopolistic competition.
- monopoly.
- oligopoly.

Difficulty: 2
QuestionID: 01-1-128
Page-Reference: 15
Skill: Comprehension
Objective: 1.5

Answer: monopolistic competition.

129. In a market with pure competition

- price is set by supply and demand.
- there are very few sellers.
- products have very few similarities.
- firms are relatively large.
- the buyers and sellers do not know the price structure of the other party.

Difficulty: 2
QuestionID: 01-1-129
Page-Reference: 15
Skill: Comprehension
Objective: 1.5

Answer: price is set by supply and demand.

130. Ontario Hydro operates in a situation of

- monopolistic competition.
- pure competition.
- oligopoly.
- fair competition.
- monopoly.

Difficulty: 2
QuestionID: 01-1-130
Page-Reference: 16
Skill: Comprehension
Objective: 1.5

Answer: monopoly.

131. The Gap makes their products appear to be slightly different from those of their competitors by tactics such as brand names. Their degree of competition is

pure competition.

oligopoly.

monopoly.

monopolistic competition.

none of these.

Difficulty: 1
QuestionID: 01-1-131
Page-Reference: 15
Skill: Comprehension
Objective: 1.5

Answer: monopolistic competition.

132. How does monopolistic competition differ from perfect competition?

There are more sellers in a market characterized by monopolistic competition.

It is easier for sellers to enter a market/industry characterized by monopolistic competition.

In a perfectly competitive market, it is easier to make a profit.

In a market characterized by monopolistic competition, individual firms have more control over price.

In monopolistic competition, small producers have a harder time making a profit.

Difficulty: 2
QuestionID: 01-1-132
Page-Reference: 15
Skill: Comprehension
Objective: 1.5

Answer: In a market characterized by monopolistic competition, individual firms have more control over price.

133. Which of the following seems the most likely pricing approach for a monopoly?

Charge customers whatever you please.

Give customers a real bargain by charging a low price.

Charge a price that will not cause consumer demand to drop.

Undercut the prices charged by competitors.

Agree with competitors to fix prices so that profit margins can be maintained.

Difficulty: 2

QuestionID: 01-1-133

Page-Reference: 16

Skill: Comprehension

Objective: 1.5

Answer: Charge a price that will not cause consumer demand to drop.

134. Tide, Pepsi, Guess, and Body Shop are all corporations involved in which type of competition?

Pure competition

Oligopoly

Monopolistic competition

Equilibrium

None of these

Difficulty: 2

QuestionID: 01-1-134

Page-Reference: 15

Skill: Comprehension

Objective: 1.5

Answer: Monopolistic competition

135. What is a "natural" monopoly?

One that occurs without any business firm trying to achieve it, i.e.—it just happens because the business does things right.

A situation where one company can most efficiently supply all the product or service that is needed by consumers

One where government finds it "natural" to grant monopoly powers to certain business firms.

One that occurs when a business firm sets out to achieve a monopoly and no other firm tries to stop it.

There is no such thing as a natural monopoly.

Difficulty: 2

QuestionID: 01-1-135

Page-Reference: 16

Skill: Comprehension

Objective: 1.5

Answer: A situation where one company can most efficiently supply all the product or service that is needed by consumers

Chapter 01 Critical Thinking Questions

1. AB Distributors is a company that serves as a shipping intermediary for other companies. Its sales revenue has increased from the previous year. Jonathan, a sales manager at AB, says, "Since the company has increased its revenue, it is now more profitable."

Which of the following, if true, would most strongly support Jonathan's contention?

AB Distributor is a relatively new company.

AB Distributor is a for-profit company.

AB Distributor's costs have decreased from the previous year.

AB Distributor's competitors have had increased revenue.

AB Distributor has hired more employees recently.

Difficulty: 3

QuestionID: 01-2-136

Page-Reference: N/A

Skill: Analysis

Objective: N/A

Answer: AB Distributor's costs have decreased from the previous year.

2. AB Distributors is a company that serves as a shipping intermediary for other companies. Its sales revenue has increased from the previous year. Jonathan, a sales manager at AB, says, "Since the company has increased its revenue, it is now more profitable."

Which of the following, if true, would most weaken Jonathan's contention?

AB Distributor's clients are happy with the company's services.

Shipping costs for the industry have significantly increased over the last year.

AB Distributor's employees are dissatisfied with the company's working conditions.

The shipping intermediary industry has experienced a slowdown overall.

Many of AB Distributor's employees are new to the business.

Difficulty: 3

QuestionID: 01-2-137

Page-Reference: N/A

Skill: Analysis

Objective: N/A

Answer: Shipping costs for the industry have significantly increased over the last year.

3. AB Distributors is a company that serves as a shipping intermediary for other companies. Its sales revenue has increased from the previous year. Jonathan, a sales manager at AB, says, "Since the company has increased its revenue, it is now more profitable."

Which of the following points out a flaw in Jonathan's reasoning?

Information about the company's expenses is necessary to tell whether it is profitable.

AB Distributor may have lost money the previous year.

Most of AB Distributor's employees are relatively new.

Not all of the revenue may contribute toward profits.

Many of AB Distributor's competitors may not be doing as well.

Difficulty: 3

QuestionID: 01-2-138

Page-Reference: N/A

Skill: Analysis

Objective: N/A

Answer: Information about the company's expenses is necessary to tell whether it is profitable.

4. AB Distributors is a company that serves as a shipping intermediary for other companies. Its sales revenue has increased from the previous year. Jonathan, a sales manager at AB, says, "Since the company has increased its revenue, it is now more profitable."

Another manager at AB Distributor, Shawna, suggests that if the company's revenue had not increased, it would not have been able to increase its profits. Which of the following points out a flaw in Shawna's reasoning?

Other similar companies have increased their profits too.

Revenue is not always relevant to figuring profitability.

Profitability is not the only objective of the company.

The company can increase revenue only by cutting costs.

It is possible to increase profits by lowering costs.

Difficulty: 3

QuestionID: 01-2-139

Page-Reference: N/A

Skill: Analysis

Objective: N/A

Answer: It is possible to increase profits by lowering costs.

5. Allied Industries is a manufacturer of basic building materials like ready mix concrete, aggregates, and other construction material. It sells its products primarily to three large real estate companies. One of these companies, Cicada Corporation, has asked for a huge discount for future orders. Allied's CEO feels that this may be a good move to retain a customer, but many senior managers think otherwise.

Assume that Allied has required Cicada to not handle any of Allied's competitors' products. Which of the following most strongly suggests that this arrangement is legal?

The pricing demands of Cicada have forced many building suppliers out of business.

Companies similar to Allied have demonstrated strong financial performance in recent years.

Cicada often sells groups of homes to institutions that then resell them to individual consumers.

In the past, Cicada and Allied were part of the same company.

Monopolistic competition is encouraged by the government in some cases.

Difficulty: 3

QuestionID: 01-2-140

Page-Reference: N/A

Skill: Analysis

Objective: N/A

Answer: Companies similar to Allied have demonstrated strong financial performance in recent years.

6. Many companies start as niche operations in order to get a foothold against larger competitors and then grow into broader competitors. Enterprise Rent-A-Car began by building a network of neighborhood offices rather than competing with Hertz and Avis in airport locations. Enterprise is now a large car rental company.

Which of the following is best supported by the statements above?

The best path to long-term growth is to avoid confrontation with larger competitors for as long as possible.

It is generally better to confront one established competitor at a time rather than many at once.

Even when competing in a niche, a company should act in every respect as if it is targeting every market segment.

The car rental industry is the best example for niche companies to consider when evaluating how to grow into prominence.

A company's initial goals do not place limits on its long-term success.

Difficulty: 3
QuestionID: 01-2-141
Page-Reference: N/A
Skill: Analysis
Objective: N/A

Answer: A company's initial goals do not place limits on its long-term success.

7. Anon Corporation is a manufacturer of Widgets. Faced with increasing input material costs, the company is contemplating a price increase in the range of 15-20 percent. There are significant disagreements among senior personnel in the company about this move.

Which of the following, if true, would strengthen the argument in favor of a price increase?

Substitutes for Widgets are available in the market.

The price of materials consumed along with Widgets has gone up.

A change in the environment is likely to stimulate overall demand for Widgets.

Competitors have announced that they intend to keep prices at current levels.

Relaxation of import restrictions would lead to foreign competitors flooding the market.

Difficulty: 3
QuestionID: 01-2-142
Page-Reference: N/A
Skill: Analysis
Objective: N/A

Answer: A change in the environment is likely to stimulate overall demand for Widgets.

8. Anon Corporation is a manufacturer of Widgets. Faced with increasing input material costs, the company is contemplating a price increase in the range of 15-20 percent. There are significant disagreements among senior personnel in the company about this move.

Which of the following, if true, would weaken the argument for a price increase?

The input costs of raw materials are expected to increase further in the coming months.

Customers are loyal to the brand mainly because they believe in the quality of ingredients used.

Anon's competitors have announced an increase in prices.

One of Anon's major competitors has just declared bankruptcy.

Market research done by the company reveals that demand for Widgets is readily affected by the price.

Difficulty: 3
QuestionID: 01-2-143
Page-Reference: N/A
Skill: Analysis
Objective: N/A

Answer: Market research done by the company reveals that demand for Widgets is readily affected by the price.

9. Anon Corporation is a manufacturer of Widgets. Faced with increasing input material costs, the company is contemplating a price increase in the range of 15-20 percent. There are significant disagreements among senior personnel in the company about this move.

Assuming other factors remain constant, Anon would have the most power to raise prices if Widgets were which of the following?

life-saving drugs

automobiles

beverages

toys

jewelry

Difficulty: 3

QuestionID: 01-2-144

Page-Reference: N/A

Skill: Analysis

Objective: N/A

Answer: life-saving drugs

10. Retepson, Inc. has been in business for over 50 years. Retepson is best known for its "Guide to Colleges" line of books designed for high school students seeking admission to undergraduate programs. Basic information about a program is included in the books at no charge to the colleges, but colleges may purchase additional advertising space. Traditionally, Retepson has made money by selling advertising in its books and by charging students for the books themselves. Recently, however, profits are down, and the company is considering whether new developments in information technology will make its current business model obsolete.

Which of the following questions is most relevant to Retepson's decisions with respect to the viability of its business model?

Does Retepson currently have high market share or low market share in the industries in which it competes?

Has Retepson been profitable throughout its history?

Would the profit margins of any new businesses be higher or lower than current profit margins?

To what extent will college students be likely to choose books to get information about colleges?

Are people who bought Retepson books in the past likely to buy new editions of those books after they leave college?

Difficulty: 3
QuestionID: 01-2-145
Page-Reference: N/A
Skill: Analysis
Objective: N/A

Answer: To what extent will college students be likely to choose books to get information about colleges?

Chapter 01 True/False Questions

1. Business principles are helpful to non-profit organizations as they try to achieve their service goals.

aTrue

bFalse

Difficulty: 2
QuestionID: 01-3-146
Page-Reference: 5
Skill: Comprehension
Objective: 1.1

Answer: a. True

2. A business is an organization that seeks to earn profits by providing goods and services.

aTrue

bFalse

Difficulty: 1
QuestionID: 01-3-147
Page-Reference: 5
Skill: Knowledge
Objective: 1.1

Answer: a. True

3. A 2011 study by Forbes magazine ranked Canada as the world's top country in which to do business out of 134 countries.

aTrue

bFalse

Difficulty: 1
QuestionID: 01-3-148
Page-Reference: 5
Skill: Knowledge
Objective: 1.1

Answer: a. True

4. Many organizations in Canada do not even try to make a profit.

aTrue

bFalse

Difficulty: 1

QuestionID: 01-3-149

Page-Reference: 5

Skill: Knowledge

Objective: 1.1

Answer: a. True

5. The reward that the owners of a business receive for taking the risks of investing their money and time is called capital.

aTrue

bFalse

Difficulty: 2

QuestionID: 01-3-150

Page-Reference: 5

Skill: Knowledge

Objective: 1.1

Answer: b. False

6. The term "business" typically includes large organizations, such as General Motors), which seek a profit, but does not include individuals who are self-employed, e.g., a carpenter, or a beautician who operates a shop in her home.

aTrue

bFalse

Difficulty: 2

QuestionID: 01-3-151

Page-Reference: 5

Skill: Comprehension

Objective: 1.1

Answer: b. False

7. A business is an organization that seeks to earn profits by providing one or more of the factors of production to consumers.

aTrue

bFalse

Difficulty: 2
QuestionID: 01-3-152
Page-Reference: 5
Skill: Knowledge
Objective: 1.1

Answer: b. False

8. An economic system allocates a nation's resources among its citizens.

aTrue

bFalse

Difficulty: 2
QuestionID: 01-3-153
Page-Reference: 5
Skill: Knowledge
Objective: 1.2

Answer: a. True

9. A command economy relies on a centralized government to control all or most of the factors of production and to make all or most production and allocation decisions.

aTrue

bFalse

Difficulty: 2
QuestionID: 01-3-154
Page-Reference: 7
Skill: Knowledge
Objective: 1.2

Answer: a. True

10. There are several different economic systems, but they all allocate resources in similar ways.

aTrue

bFalse

Difficulty: 2
QuestionID: 01-3-155
Page-Reference: 7
Skill: Comprehension
Objective: 1.2

Answer: b. False

11. Natural resources include things like land, mineral deposits, water, and trees.

aTrue

bFalse

Difficulty: 2

QuestionID: 01-3-156

Page-Reference: 6

Skill: Comprehension

Objective: 1.2

Answer: a. True

12. Capital is needed only at the start-up phase of a business.

aTrue

bFalse

Difficulty: 2

QuestionID: 01-3-157

Page-Reference: 6

Skill: Comprehension

Objective: 1.2

Answer: b. False

13. The natural resources component of the factors of production includes the physical and mental capabilities of people in the work force.

aTrue

bFalse

Difficulty: 1

QuestionID: 01-3-158

Page-Reference: 6

Skill: Comprehension

Objective: 1.2

Answer: b. False

14. If two people exchange apples, they still each have only one apple, but if two people exchange ideas, each person now has two ideas instead of one. This example is consistent with the argument that "information" as a factor of production is conceptually different than land, labour, and capital as factors of production.

aTrue

bFalse

Difficulty: 1
QuestionID: 01-3-159
Page-Reference: 7
Skill: Analysis
Objective: 1.2

Answer: a. True

15. In the input market, firms supply goods and services in response to demand on the part of households.

aTrue

bFalse

Difficulty: 1
QuestionID: 01-3-160
Page-Reference: 8
Skill: Knowledge
Objective: 1.2

Answer: b. False

16. Communism and socialism are both types of command economies.

aTrue

bFalse

Difficulty: 1
QuestionID: 01-3-161
Page-Reference: 7
Skill: Comprehension
Objective: 1.2

Answer: a. True

17. Although workers in socialist countries are usually allowed to choose their occupations, a large proportion generally work for the government.

aTrue

bFalse

Difficulty: 2
QuestionID: 01-3-162
Page-Reference: 8
Skill: Knowledge
Objective: 1.2

Answer: a. True

18. Capitalism relies on demand and supply in the marketplace to determine what, when, and for whom to produce.

aTrue

bFalse

Difficulty: 2

QuestionID: 01-3-163

Page-Reference: 8

Skill: Knowledge

Objective: 1.2

Answer: a. True

19. There are more command economies in the world now than there were 30 years ago.

aTrue

bFalse

Difficulty: 2

QuestionID: 01-3-164

Page-Reference: 7

Skill: Knowledge

Objective: 1.2

Answer: b. False

20. A GlobeScan poll of 20 000 people in 20 different countries showed that the highest support for capitalism was in the U.S. and the lowest level of support was in India.

aTrue

bFalse

Difficulty: 2

QuestionID: 01-3-165

Page-Reference: 8

Skill: Knowledge

Objective: 1.2

Answer: b. False

21. China's constitution has been amended to legitimate private enterprise.

aTrue

bFalse

Difficulty: 2
QuestionID: 01-3-166
Page-Reference: 7
Skill: Knowledge
Objective: 1.2

Answer: a. True

22. The government plays several different roles in the Canadian economy, including the roles of customer, competitor, and regulator.

aTrue

bFalse

Difficulty: 1
QuestionID: 01-3-167
Page-Reference: 10
Skill: Knowledge
Objective: 1.3

Answer: a. True

23. The reasons why the government regulates many aspects of business activity include protecting competition, protecting consumers, achieving social goals, and protecting the environment.

aTrue

bFalse

Difficulty: 1
QuestionID: 01-3-168
Page-Reference: 10
Objective: 1.3

Answer: a. True

24. Total Canadian government expenditures in 2011 were about \$1 trillion.

aTrue

bFalse

Difficulty: 1
QuestionID: 01-3-169
Page-Reference: 10
Skill: Knowledge
Objective: 1.3

Answer: b. False

25. Revenue taxes are levied to control certain activities that legislative bodies believe should be controlled.

aTrue

bFalse

Difficulty: 1

QuestionID: 01-3-170

Page-Reference: 12

Skill: Knowledge

Objective: 1.3

Answer: b. False

26. If the Canadian Auto Workers (CAW) want to bring their interests to government officials, they can hire a lobbyist.

aTrue

bFalse

Difficulty: 1

QuestionID: 01-3-171

Page-Reference: 12

Skill: Comprehension

Objective: 1.3

Answer: a. True

27. The Competition Act prohibits resale price maintenance, which occurs when companies refuse to sell their products to discount stores.

aTrue

bFalse

Difficulty: 2

QuestionID: 01-3-172

Page-Reference: 10

Skill: Comprehension

Objective: 1.3

Answer: b. False

28. A demand and supply schedule is derived from market research and other systematic studies of the market.

aTrue

bFalse

Difficulty: 3
QuestionID: 01-3-173
Page-Reference: 13
Skill: Knowledge
Objective: 1.4

Answer: a. True

29. The law of demand states that buyers will purchase more of a product as its price drops.

aTrue

bFalse

Difficulty: 1
QuestionID: 01-3-174
Page-Reference: 13
Skill: Knowledge
Objective: 1.4

Answer: a. True

30. In economic terms, a "market" refers to a specific place like a supermarket.

aTrue

bFalse

Difficulty: 2
QuestionID: 01-3-175
Page-Reference: 13
Skill: Knowledge
Objective: 1.4

Answer: b. False

31. If the market for diamonds is at equilibrium and De Beers increased its prices, people would still demand the same quantity of diamonds.

aTrue

bFalse

Difficulty: 2
QuestionID: 01-3-176
Page-Reference: 13
Skill: Comprehension
Objective: 1.4

Answer: b. False

32. A demand curve shows the amount of goods and services a producer will create at different prices.

aTrue

bFalse

Difficulty: 2

QuestionID: 01-3-177

Page-Reference: 13

Skill: Knowledge

Objective: 1.4

Answer: b. False

33. The point on a demand and supply schedule where supply and demand are equal is known as the break-even point.

aTrue

bFalse

Difficulty: 2

QuestionID: 01-3-178

Page-Reference: 13

Skill: Knowledge

Objective: 1.4

Answer: b. False

34. A surplus in the market is good news for the firm selling a product or service because there are additional customers still trying to purchase the product.

aTrue

bFalse

Difficulty: 2

QuestionID: 01-3-179

Page-Reference: 14

Skill: Comprehension

Objective: 1.4

Answer: b. False

35. The equilibrium price is the profit-maximizing point at which the quantity demanded equals the quantity supplied.

aTrue

bFalse

Difficulty: 1
QuestionID: 01-3-180
Page-Reference: 13
Skill: Knowledge
Objective: 1.4

Answer: a. True

36. Private property rights are an essential element of a communist economic system.

aTrue

bFalse

Difficulty: 1
QuestionID: 01-3-181
Page-Reference: 14
Skill: Comprehension
Objective: 1.5

Answer: b. False

37. The private enterprise system guarantees a profit for each business firm, as long as it does not break the law.

aTrue

bFalse

Difficulty: 2
QuestionID: 01-3-182
Page-Reference: 14
Skill: Comprehension
Objective: 1.5

Answer: b. False

38. The concept of freedom of choice applies only to buyers of goods and services.

aTrue

bFalse

Difficulty: 2
QuestionID: 01-3-183
Page-Reference: 14
Skill: Comprehension
Objective: 1.5

Answer: b. False

39. What a company chooses to produce will be affected by the profits it hopes to make.

aTrue

bFalse

Difficulty: 2

QuestionID: 01-3-184

Page-Reference: 14

Skill: Comprehension

Objective: 1.5

Answer: a. True

40. The private enterprise system guarantees that competition among business firms will be fair.

aTrue

bFalse

Difficulty: 2

QuestionID: 01-3-185

Page-Reference: 15

Skill: Comprehension

Objective: 1.5

Answer: b. False

41. In monopolistic competition, sellers try to make their products at least appear to be slightly different from those of other competitors by tactics such as brand names, design or styling, and advertising.

aTrue

bFalse

Difficulty: 2

QuestionID: 01-3-186

Page-Reference: 15

Skill: Comprehension

Objective: 1.5

Answer: a. True

42. As a general rule, in perfect competition there will be very few sellers.

aTrue

bFalse

Difficulty: 2
QuestionID: 01-3-187
Page-Reference: 15
Skill: Comprehension
Objective: 1.5

Answer: b. False

43. The recent privatization of postal services in several countries is consistent with the argument made by some people that there is no such thing as a "natural" monopoly.

aTrue

bFalse

Difficulty: 2
QuestionID: 01-3-188
Page-Reference: 16
Skill: Comprehension
Objective: 1.5

Answer: a. True

44. The market for clothing is best characterized as monopolistic competition.

aTrue

bFalse

Difficulty: 2
QuestionID: 01-3-189
Page-Reference: 15
Skill: Knowledge
Objective: 1.5

Answer: a. True

45. Monopolistically competitive businesses may be large or small and may enter or exit the market easily.

aTrue

bFalse

Difficulty: 2
QuestionID: 01-3-190
Page-Reference: 15
Skill: Knowledge
Objective: 1.5

Answer: a. True

46. Coke and Pepsi represent oligopolistic competition.

aTrue

bFalse

Difficulty: 2

QuestionID: 01-3-191

Page-Reference: 15

Skill: Comprehension

Objective: 1.5

Answer: a. True

47. A differentiating strategy used in monopolistic competition is to use brand names such as Tide and Cheer.

aTrue

bFalse

Difficulty: 2

QuestionID: 01-3-192

Page-Reference: 15

Skill: Comprehension

Objective: 1.5

Answer: a. True

48. Private enterprise requires the presence of four elements: (1) private property rights, (2) freedom of choice, (3) competition, and (4) no government control.

aTrue

bFalse

Difficulty: 3

QuestionID: 01-3-193

Page-Reference: 14-15

Skill: Knowledge

Objective: 1.5

Answer: b. False

49. Gasoline stations are an example of a type of business involved in perfect competition.

aTrue

bFalse

Difficulty: 2
QuestionID: 01-3-194
Page-Reference: 15
Skill: Comprehension
Objective: 1.5

Answer: a. True

50. An oligopoly exists when firms in an industry are so small and numerous that no one is powerful enough to dominate the market.

aTrue

bFalse

Difficulty: 1
QuestionID: 01-3-195
Page-Reference: 15
Skill: Knowledge
Objective: 1.5

Answer: b. False

51. A monopoly exists when there is only one firm producing a certain product or providing a certain service.

aTrue

bFalse

Difficulty: 1
QuestionID: 01-3-196
Page-Reference: 16
Skill: Knowledge
Objective: 1.5

Answer: a. True

Chapter 01 Short Answer Questions

1. What is a business?

Difficulty: 1
QuestionID: 01-4-197
Page-Reference: 5
Skill: Comprehension
Objective: 1.1

Answer: A business is an organization that provides goods or services that are then sold to earn profits.

2. What are profits and why are they important in Canada's economic system?

Difficulty: 2

QuestionID: 01-4-198

Page-Reference: 5

Skill: Comprehension

Objective: 1.1

Answer: - profits = revenues minus expenses

- they are rewards for taking risks
- they are used to support government and charities and to pay wages
- they are needed to continue producing goods and services

3. What are the five factors of production?

Difficulty: 1

QuestionID: 01-4-199

Page-Reference: 5-7

Skill: Knowledge

Objective: 1.2

Answer: The factors of production are labour, capital, entrepreneurs, physical resources, and information resources.

4. What is an entrepreneur?

Difficulty: 2

QuestionID: 01-4-200

Page-Reference: 6

Skill: Comprehension

Objective: 1.2

Answer: - an individual who organizes and manages labour, capital, and natural resources to produce goods and services to earn a profit, but who also runs the risk of failure

- business person
- manager
- initiator
- leader
- risk taker

5. Explain the terms, "command economy" and "market economy." Give an illustration of each.

Difficulty: 2

QuestionID: 01-4-201

Page-Reference: 7-8

Skill: Comprehension

Objective: 1.2

Answer: - *command*: government dominated, government controls the factors of production, people often work for the government, share the wealth equally, one class society, example - China

- *market*: the people have a say in what the government does, individuals control factors of production, independent wealth, rich/middle class/poor, example - Canada

6. How does a command economy differ from a market economy?

Difficulty: 1

QuestionID: 01-4-202

Page-Reference: 7-8

Skill: Comprehension

Objective: 1.2

Answer: A command economy relies on a centralized government to control all or most factors of production and to make all or most production and allocation decision. In a market economy, individuals control production and allocation decisions through supply and demand.

7. What is a mixed market economy?

Difficulty: 1

QuestionID: 01-4-203

Page-Reference: 8

Skill: Comprehension

Objective: 1.2

Answer: A mixed market economy is one that has features of both command and market economies. Since very few economies are purely command or market economies, most countries of the world technically have a mixed market economy. But China's mixed market economy is quite different than Canada's.

8. What is deregulation? What has been the trend in deregulation over the past two decades?

Difficulty: 2

QuestionID: 01-4-204

Page-Reference: 9

Skill: Comprehension

Objective: 1.2

Answer: Deregulation means a reduction in the number of laws affecting business activity and in the powers of government enforcement agencies. In the 1990's, there was a definite trend toward deregulation, but the major economic problems that many countries have recently been facing, particularly in their financial sectors, has meant the re-imposition of stricter government controls in some areas of the economy.

9. List one major benefit and one major drawback of each type of economic system.

Difficulty: 2

QuestionID: 01-4-205

Page-Reference: 7-9

Skill: Comprehension

Objective: 1.2

Answer: A market economy is the most efficient and people work for their own purposes. In a command economy, there is less disparity between rich and poor

10. There are three major types of economic systems in existence. Identify and briefly describe them.

Difficulty: 2

QuestionID: 01-4-206

Page-Reference: 7-9

Skill: Comprehension

Objective: 1.2

Answer: - command economies: a type in which the government controls all or most factors of production and makes all or most production decisions

- market economies: a type in which individuals control all or most factors of production and make all or most production decisions

- mixed economies: a type with elements of both a command economy and a market economy

11. What is socialism?

Difficulty: 1

QuestionID: 01-4-207

Page-Reference: 8

Skill: Comprehension

Objective: 1.2

Answer: Socialism is a less extensive command system in which the government owns and operates selected major industries. The government may control banking, transportation, or manufacturing industries, for example. Smaller businesses, such as clothing stores and restaurants, are privately owned.

12. How does government compete with business in Canada?

Difficulty: 1

QuestionID: 01-4-208

Page-Reference: 10

Skill: Comprehension

Objective: 1.3

Answer: Government competes with business through the activities of Crown corporations like Hydro Quebec, Manitoba Hydro, the Liquor Control Board of Ontario, and Canada Post. There is a debate about whether business firms could provide these goods and services more efficiently than the government can. Crown corporations exist at both the federal and provincial levels.

13. What four areas are the focus of the government's role as a "regulator"?

Difficulty: 1

QuestionID: 01-4-209

Page-Reference: 10

Skill: Comprehension

Objective: 1.3

Answer: The four areas are promoting competition (e.g., ensuring that healthy competition exists among business competitors), protecting consumers (e.g., legislation regarding hazardous products), achieving social goals (e.g., universal access to health care), and protecting the environment (e.g., passing air pollution legislation).

14. How does government influence business? How does business influence government?

Difficulty: 1

QuestionID: 01-4-210

Page-Reference: 10-13

Skill: Comprehension

Objective: 1.3

Answer: Government influences business through each of the roles that government plays in our society. For example, as a customer, government purchases influence the amount of demand that exists for the products and services that business produces. Business influences government in a variety of ways, including the use of lobbyists, who try to influence the type legislation that government is considering that might affect how businesses operate.

15. Describe the law of demand.

Difficulty: 1

QuestionID: 01-4-211

Page-Reference: 13

Skill: Knowledge

Objective: 1.4

Answer: The law of demand states that buyers will purchase more of a product as its price drops and less of a product as its price increases.

16. Explain what happens when the demand curve intersects with the supply curve.

Difficulty: 2

QuestionID: 01-4-212

Page-Reference: 13

Skill: Comprehension

Objective: 1.4

Answer: At this intersection, we have the equilibrium or market price. At this price, there will be neither a shortage nor surplus. Over time, markets tend to price products at the equilibrium price.

17. Expert Electronics sells state-of-the-art desktop computer systems. The company is able to fill all orders, but it has no waiting list. How is Expert Electronics apparently pricing its computer systems?

Difficulty: 2

QuestionID: 01-4-213

Page-Reference: 13

Skill: Comprehension

Objective: 1.4

Answer: It appears that Expert Electronics is pricing its computers at the equilibrium price, i.e., at the intersection of the demand and supply curves. At the equilibrium price, the quantity of goods demanded and the quantity of goods supplied is equal.

18. What does the supply curve reflect?

Difficulty: 2

QuestionID: 01-4-214

Page-Reference: 13

Skill: Comprehension

Objective: 1.4

Answer: The supply curve shows how much of a product will be supplied at different prices.

19. What does the demand curve reflect?

Difficulty: 2

QuestionID: 01-4-215

Page-Reference: 13

Skill: Comprehension

Objective: 1.4

Answer: The demand curve shows how many products will be demanded at different prices.

20. What is the potential impact if a company underestimates demand?

Difficulty: 2

QuestionID: 01-4-216

Page-Reference: 14

Skill: Comprehension

Objective: 1.4

Answer: - too few products produced
- potential profits lost
- angry customers cannot buy what they want
- knowledge of the shortage attracts more competition

21. In a country operating under a capitalistic, market-based economy, what four elements must be present in the economic system to make it work?

Difficulty: 2

QuestionID: 01-4-217

Page-Reference: 14-15

Skill: Comprehension

Objective: 1.5

Answer: Such systems require private property rights, freedom of choice, profits, and competition.

22. List the four degrees of competition that can exist in a private enterprise system.

Difficulty: 2

QuestionID: 01-4-218

Page-Reference: 15-16

Skill: Knowledge

Objective: 1.5

Answer: Perfect competition, monopolistic competition, oligopoly, and monopoly

23. Describe monopolistic competition.

Difficulty: 2

QuestionID: 01-4-219

Page-Reference: 15

Skill: Comprehension

Objective: 1.5

Answer: In a market characterized by monopolistic competition, there are fewer sellers than in perfect competition. Sellers will attempt to differentiate their product from those of their competitors. Product differentiation gives sellers some control over prices. Monopolistically competitive businesses can be large or small and can enter and exit the market easily.

Chapter 01 Essay Questions

1. Explain the role of both profit-seeking businesses and non-profit organizations in the overall "meaning of business."

Difficulty: 3

QuestionID: 01-5-220

Page-Reference: 5

Skill: Comprehension

Objective: 1.1

Answer: Businesses are organizations that provide goods and services that are then sold to earn profits. Indeed, the prospect of earning profits—the difference between a business's revenue and its expenses—is what encourages people to open and expand businesses. After all, profits are the reward owners get for risking their money and time. The right to pursue profits distinguishes a business from non-profit organizations, such as universities, hospitals, and government agencies, that run in much the same way but that generally do not seek profits. Whereas profits may be considered the final reward in profit-seeking businesses, the final reward for non-profit organizations might be, for example, operational efficiency.

2. What are the factors of production? Explain each one.

Difficulty: 2

QuestionID: 01-5-221

Page-Reference: 5-7

Skill: Comprehension

Objective: 1.2

Answer: - *natural resources*: items used in the production of goods and services in their natural state, including land, water, minerals, and trees
- *labour*: the mental and physical training and talents of people; sometimes called human resources
- *capital*: the funds needed to operate an enterprise
- *entrepreneur*: an individual who organizes and manages natural resources, labour, and capital to produce goods and services to earn a profit, but who also runs the risk of failure
- newer perspectives tend to broaden the idea of "natural resources" to include all physical resources
- while the production of tangible goods once dominated most economic systems, today information resources play a major role-*information resources* refers to information such as market forecasts, economic data, and specialized knowledge of employees that is useful to a business and that helps it achieve its goals

3. Consider the following statement: "A nation's economic system is its system for allocating its resources among its citizens, both individuals and organizations." What are a nation's "resources", and what important role do they play in a nation's economic system?

Difficulty: 3

QuestionID: 01-5-222

Page-Reference: 5-7

Skill: Comprehension

Objective: 1.2

Answer: A nation's resources, often referred to as the *factors of production*, include four tradition factors: labor, capital, entrepreneurs, and physical resources. Recently, information resources were added to the list. An economic system is defined by how it manages and allocates these factors of production. In a planned economy, for example, the factors of production are government-owned and controlled. In a market economy, such as that of the United States, individual producers and consumers control production and allocation by creating combinations of supply and demand. In a mixed-market economy, which features characteristics of both a planned and a market economy, there is some government control of some factors of production—often through the nation's major industries, such as transportation, communication, and information—alongside some private ownership.

4. What is the difference between capitalism and socialism?

Difficulty: 2

QuestionID: 01-5-223

Page-Reference: 8

Skill: Comprehension

Objective: 1.2

Answer: - capitalism: an economic system in which markets decide what, when, and for whom to produce
- capitalist market economy: citizens run businesses, more efficient, choose your own job
- socialism: a kind of command economy in which the government owns and operates the main industries, while individuals own and operate less crucial industries
- less efficient, large proportion of people end up working for government

5. What is socialism?

Difficulty: 1

QuestionID: 01-5-224

Page-Reference: 8

Skill: Comprehension

Objective: 1.2

Answer: Socialism is a partially planned system in which the government owns and operates selected major industries. In such mixed market economies, the government may control, for example, banking, transportation, or manufacturing industries. Smaller businesses, such as clothing stores and restaurants, are privately owned.

6. "All the different economic systems of the world are moving toward a mixed economy with elements of a planned economy and a market economy." Agree or disagree and support your position.

Difficulty: 2

QuestionID: 01-5-225

Page-Reference: 8-9

Skill: Comprehension

Objective: 1.2

Answer: Communist countries are adopting deregulation and privatization, but capitalist countries are continually developing legislation to regulate private enterprise.

7. Discuss the government's role as: (a) a competitor, (b) a regulator, (c) a taxation agent, and (d) a provider of incentive programs.

Difficulty: 2

QuestionID: 01-5-226

Page-Reference: 10-12

Skill: Comprehension

Objective: 1.3

Answer: - *competitor*: the government competes with business through Crown corporations (energy, Royal Canadian Mint, St. Lawrence Seaway Authority).

- *regulator*: federal and provincial governments in Canada still regulate many aspects of business activity. Government regulates business through many administrative boards, tribunals, or commissions (CRTC, CTC, Canadian Wheat Board).

- *taxation agent*: taxes are imposed to fund government services and programs and to regulate and control certain activities. There are revenue taxes and restrictive taxes.

- *provider of incentive programs*: through programs like the Industrial Regional Development Program, federal assistance is delivered to industries, particularly those in disadvantaged regions. Other programs include tax and duty rebates.

8. Discuss the two reasons that the government uses to justify regulation of business activities. As an owner or manager, do you believe regulation of business is justified as an owner or manager? As a consumer?

Difficulty: 2

QuestionID: 01-5-227

Page-Reference: 10

Skill: Analysis

Objective: 1.3

Answer: - to encourage and protect competition by seeking to eliminate restrictive trade practices
- to provide consumer protection
- *owner/manager*: government regulations create a fair and honest business world in the best interests of everyone
- *consumer*: government creates fair business for corporations and consumers

9. Explain the roles of demand and supply in a market economy.

Difficulty: 2
QuestionID: 01-5-228
Page-Reference: 13
Skill: Comprehension
Objective: 1.4

Answer: On all economic levels of a market economy, 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; 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 and less as its price increases. The law of supply states that producers will offer more of a product for sale as its price rises and less as its price drops.

10. Inaccuracies in forecasting an exact supply-demand schedule create surpluses and shortages. Describe what surpluses and shortages are using the concepts of supply and demand and indicate the probable impact of each upon price.

Difficulty: 2
QuestionID: 01-5-229
Page-Reference: 14
Skill: Comprehension
Objective: 1.4

Answer: - surpluses occur when the quantity supplied exceeds the quantity demanded, prices will decrease
- shortages occur when the quantity demanded exceeds the quantity supplied, prices will increase

11. Explain the role of private enterprise in a market economy. Include an explanation of the elements that comprise free enterprise.

Difficulty: 2
QuestionID: 01-5-230
Page-Reference: 14-15
Skill: Comprehension
Objective: 1.5

Answer: Market economies rely on a private enterprise system, one that allows individuals to pursue their own interests with minimal government restriction. Private enterprise requires four elements: private property rights, freedom of choice, profits, and competition. Private property rights allow the ownership of resources used to create wealth to be in the hands of individuals. Freedom of choice allows a number of freedoms in the market, including the freedom for a worker to sell his or her labor to any employer he or she chooses, the freedom to choose which products and brands to buy, and the freedom for producers to choose whom they hire and what they will produce. Profits are the incentives for entrepreneurs to assume the risks of business ownership. Competition occurs when businesses vie for the same resources and customers; competition is a driver of goods and services quality and price levels. All four of these elements are welcomed in a market economy.

12. Explain the effects of monopolies on consumers and the economy.

Difficulty: 3

QuestionID: 01-5-231

Page-Reference: 16

Skill: Comprehension

Objective: 1.5

Answer: If a company has a monopoly, it can harm consumers by raising prices, cutting output, or stifling innovation. Furthermore, because most monopolies have total control over certain products and prices and the market share for those products, competitors are likely to find it extremely difficult to enter markets where monopolies exist. Consequently, a number of laws and regulations have been established by the federal government to help prevent individual companies or groups of companies from gaining control of markets in ways that restrain competition or harm consumers.

13. Expert Electronics sells state-of-the-art desktop computer systems. It competes with several other large computer manufacturers. How would you characterize the level of competition for computers? How are prices set in this type of competitive environment? If Expert Electronics cuts the prices for its computer systems, how will competitors likely respond?

Difficulty: 2

QuestionID: 01-5-232

Page-Reference: 15

Skill: Comprehension

Objective: 1.5

Answer: Because there are only a few sellers, this is a situation of oligopoly. In an oligopoly, the prices of comparable products are usually very similar. In an oligopoly, when one firm cuts prices or offers incentives to increase sales, the others usually protect sales by doing the same.

14. Discuss the reasons why the Canadian government permits certain "natural" monopolies while forbidding attempts by business firms to create a monopoly in other parts of the economy.

Difficulty: 2

QuestionID: 01-5-233

Page-Reference: 16

Skill: Comprehension

Objective: 1.5

Answer: - natural monopolies are industries in which one economy can most efficiently supply all the product or service needed
- natural economies eliminate unnecessary costs and waste
- competition, which is the root of why business works so well in capitalistic society
- no competition, firm run less efficiently and quality is not as high and society does not benefit as much

15. Describe perfect competition in terms of the number of competitors, ease of entry into the market, similarity of goods/services offered by competing firms, and level of control over price by individual firms. Give an example of a purely competitive market or industry.

Difficulty: 3
QuestionID: 01-5-234
Page-Reference: 15
Skill: Comprehension
Objective: 1.5

Answer: For perfect competition to exist, all of the firms in an industry must be small and the number of the firms in the industry must be large. Under these conditions, no single firm is powerful enough to influence the price of its product. The products of each firm are so similar that buyers will perceive them as identical to those of other firms. Because each firm is small, it is easy for firms to enter or leave the market. U.S. agriculture is a good example of perfect competition.

16. Describe monopolistic competition in terms of the number of competitors, ease of entry into the market, similarity of goods/services offered by competing firms, and level of control over price by individual firms. Give an example of a market or industry characterized by monopolistic competition.

Difficulty: 3
QuestionID: 01-5-235
Page-Reference: 15
Skill: Comprehension
Objective: 1.5

Answer: In a market characterized by monopolistic competition, there are fewer sellers than in perfect competition. Sellers will attempt to differentiate their product from those of their competitors. Product differentiation gives sellers some control over prices. While monopolistically competitive businesses can be large or small, they can enter and exit the market easily. There are many examples of monopolistically competitive markets, particularly in the retail market (the market for jeans, the market for laundry detergents, the market for soft drinks, etc.).

17. Describe oligopoly in terms of the number of competitors, ease of entry into the market, similarity of goods/services offered by competing firms, and level of control over price by individual firms. Give an example of a market or industry that is an oligopoly.

Difficulty: 3
QuestionID: 01-5-236
Page-Reference: 15
Skill: Comprehension
Objective: 1.5

Answer: When an industry has only a few sellers, an oligopoly exists. While there are only a few sellers, they tend to be large. The entry of new competitors is difficult because of the large capital investment needed. As with monopolistic competition, sellers will attempt to differentiate their product from those of their competitors and each seller will have some control over price. However, when one firm cuts prices, others will tend to do the same. Therefore, the prices of comparable products are usually similar. The automobile, airline, and steel industries are all oligopolies.

18. Describe monopoly in terms of the number of competitors, ease of entry into the market, and level of control over price by individual firms. Give an example of a market or industry that is a monopoly.

Difficulty: 3

QuestionID: 01-5-237

Page-Reference: 16

Skill: Comprehension

Objective: 1.5

Answer: A monopoly exists when an industry or market has only one producer. The sole supplier enjoys complete control over the prices of its products. Its only constraint is a decrease in consumer demand due to increased prices. In the United States, the Sherman Antitrust Act and the Clayton Act forbid many monopolies and regulate prices charged by natural monopolies.

19. Compare and contrast the four degrees of competition in a private enterprise system.

Difficulty: 3

QuestionID: 01-5-238

Page-Reference: 15-16

Skill: Comprehension

Objective: 1.5

Answer: The four degrees of competition include perfect competition, monopolistic competition, oligopoly, and monopoly. In perfect competition, all firms in an industry are small, but the number of firms in the industry is large. No single firm is powerful enough to influence price; therefore, price is determined by such market forces as supply and demand. The products in a perfectly competitive market are so similar that buyers view them as identical to those of other firms. In monopolistic competition, there are many buyers and sellers. Often, sellers attempt to differentiate their products and services from others through design, styling, advertising, or the use of brand names; this often gives sellers some control over prices. Monopolistically competitive businesses face few market entry/exit barriers. In an oligopoly, an industry has only a handful of sellers, who are generally quite large. Market entry is difficult because large capital outlays are needed for new start-ups. In an oligopoly, the actions of one firm tend to affect the actions of all firms; for example, when one firm changes price, all firms tend to change price rather quickly. A monopoly exists when an industry or market has only one producer that dominates the entire market. Though monopolies are illegal in the U.S., natural monopolies--such as utilities companies--are government-regulated; they are allowed to exist since one such company can often efficiently supply all needed goods or services.