

| Indicate whether the sentence or statement is true or false. Mark "A" if the answer is True or "B" if the answer is False. | | | | |
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| 1. The law of supply states that, at higher prices, a smaller quantity generally will be supplied than at lower prices. | a True | b. False | | |
| 2. With a change in demand, demand curves actually shift to the right if demand increases and to the left if it decreases. | a True | b. False | | |
| 3. Government is more likely to tax products with elastic demand. | a True | b. False | | |
| 4. High prices are a signal for producers to produce more. | a True | b. False | | |
| 5. When the dollar is weak foreign goods are less expensive. | a True | b. False | | |
| 6. By lowering the discount rate the Federal Reserve System encourages banks to borrow from it. | a True | b. False | | |
| 7. Increasing the reserve requirement by the Federal Reserve System tends to increase the money supply. | a True | b. False | | |
| 8. Entrepreneurs are guaranteed a profit in a market economy. | a True | b. False | | |
| 9. In a monopoly market the law of demand is still operating. | a True | b. False | | |
| 10. Government regulations transfer the cost of pollution to the business causing the pollution. | a True | b. False | | |
| 11. Frictional unemployment, the most serious type of unemployment, results from a basic change in the economy that makes the skills of certain workers obsolete or useless. | a True | b. False | | |
| 12. The domestic automobile industry is a good example of an oligopoly. | a True | b. False | | |
| 13. Government spending has increased since 1930, but it now accounts for a lesser percentage of the GNP. | a True | b. False | | |
| 14. Treasury bonds are sold to finance deficit spending. | a True | b. False | | |
| 15. In a market economy, if the price is too low, a shortage will develop, thereby driving up the price. | a True | b. False | | |
| 16. A recession is any period during which the real GNP does not grow for two years in a row. | a True | b. False | | |
| 17. Corporations are the most common form of business ownership in the United States. | a True | b. False | | |
| 18. A nonprofit corporation is legally incorporated by the state and has most of the characteristics of the corporation, however, it does not pay taxes or issue stock. | a True | b. False | | |
| 19. The preferred stockholders in a corporation elect the Board of Directors. | a True | b. False | | |
| 20. Futures is a way by which an investor can contract to buy at a later date at prices agreed upon at the present time. | a True | b. False | | |

| Mark the correct answer on your scantron sheet for each of the following questions. | | | | |
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| 21. Which of the following is not true of the equilibrium price of a good? | a. The price of any good or service will find the level at which the quantity demanded and the quantity supplied is balanced. | b. Whenever the market price of a good falls below the equilibrium price, we say that a surplus has developed. | c. At the equilibrium price of goods, the plans of buyers and the plans of sellers are the same. | d. A shortage has developed whenever the equilibrium price is higher than the market price. |
| 22. Which of the following is not a factor to determine whether the quantity demanded of a good is elastic or inelastic? | a. Classification as a necessity or luxury | b. The amount of income a person spends on the item | c. Classification as a substitute or complementary | d. The presence of substitutes |
| 23. Which of the following is not a factor that affects price and the quantity of a good demanded? | a. Stabilization utility effect | b. Diminishing marginal utility | c. The real income effect | d. Substitution effect |
| 24. Which of the following is not true? | a. If the price of tennis rackets decreases, the demand for tennis balls will increase. | b. If the price of wheat increases, the demand for rice will increase. | c. If the price of domestic cars decreases, the demand for imported cars will decrease. | d. If the price of paint increases, the demand for paint brushes will increase. |
| 25. Which of the following best describes demand elasticity? The degree to which changes in _____. | a. buyers' tastes and preferences cause changes in the quantity of the product demanded | b. the price of a product cause changes in the quantity of the product demanded | c. supply of a product cause changes in the quantity of the product demanded | d. technology cause changes in the quantity of the product demanded. |
| 26. Which of the following goods is considered elastic? | a. Pizza | b. Medical care | c. Milk | d. Salt |
| 27. The law of demand says there is a(an) | a. inverse relationship between price and quantity demanded. | b. parallel relationship between price and quantity demanded. | c. positive relationship between price and quantity demanded. | d. negotiable relationship between price and quantity demanded. |
| 28. A market demand schedule is a | a. graphical plot of the market demand data. | b. table that shows the quantity of the goods that would be purchased at each price. | c. table that shows the demand of goods based on the income of consumers. | d. graphical plot that shows the vertical axis of the graph that measures the quantity of the good demanded, and the horizontal axis that measures the price per unit of the good. |
| 29. Which of the following is not a type of trade restriction? | a. Depreciates | b. Tariffs | c. Cartels | d. Subsidies |
| 30. Which of the following is not an argument in favor of tariffs? | a. Tariffs provide domestic job protection. | b. Tariffs are important to the national defense. | c. Tariffs can help a new manufacturing industry to develop. | d. Tariffs make it necessary to produce the best product at the lowest price. |

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| 31. Some foreign suppliers use dumping. Dumping involves | a. taxing foreign goods to raise money for the government and then placing that money in a fund to benefit government employees. | b. selling a product in a foreign market at a price lower than the cost in the home market and raising prices after the domestic manufacturer has been forced out of business. | c. selling a product in a foreign market at a price higher than the cost in the home market to decrease the demand for that product. | d. the ability of one country to produce a good or service more efficiently than another country. |
| 32. Which of the following is not an effect of trade restrictions? | a. Prices rise | b. Without specialization, resources are not used as efficiently as possible | c. Fewer goods and services are available to consumers, and fewer jobs exist | d. The world economy produces at a higher efficiency level. |
| 33. Which of the following is a U. S. government lending agency that makes loans available to importers and exporters and can lend money to foreign governments to help them develop international trade? | a. Securities and Exchange Commission | b. Federal Reserve System | c. Export-Import Bank | d. International Trade Bank |
| 34. Which of the following does not occur when the value of the dollar falls in relation to other currencies? | a. The number of American tourists abroad decreases. | b. The price of imports rises. | c. Exports increase | d. Exports become more expensive |
| 35. Which of the following would help a country sell its goods at a lower price in the American market? | a. An increase in tariffs | b. Repeal of the Trade Expansion Act of 1962 | c. The most favored nation clause | d. More quotas |
| 36. Which of the following measures are used to measure the amount of money supply in the economy? | a. M1 and M2 | b. Currency and Checks | c. Keogh Plan and Comecon Plan | d. GNP1 AND GNP2 |
| 37. Which of the following is not a tool used by the Federal Reserve System to influence the money supply? | a. Determines the maximum interest rates a bank may charge its customers | b. Determines what percentage of its deposits a bank must keep in reserve | c. Lends money to banks and charges interest on its loans | d. Buys and sells government bonds |
| 38. Which of the following meets approximately 13 times a year to decide the course of action that the Federal Reserve System should take to control the money supply? | a. The Board of Governors | b. Federal Advisory Council | c. Federal Open Market Committee | d. Member Banks Council |
| 39. Which is the most common medium of exchange in the world today? | a. Commodity money | b. Fiat money | c. Barter | d. Currency |
| 40. The Federal Reserve System | A. regulates time deposits and savings. | b. issues money market funds. | C. insures bank accounts up to a maximum of \$100,000. | d. issues the currency in the United States. |
| 41. Our nation's money supply is regulated and controlled by the Federal Reserve System, which is | a. now the largest private commercial bank in the United States. | b. a system organized by private banks and divided into 11 regions. | c. directed and controlled by a seven-member board appointed by the President. | d. owned by the federal government, but directed and controlled by private commercial banks. |
| 42. Which of the following is consistent with an easy-money policy? | a. High interest rates | b. Encouraging business to borrow money by lowering interest rates | c. Discouraging consumers from using credit | d. The price of money is increased. |

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| 43. When prices rise too fast and the economy is suffering from inflation, the Federal Reserve System would probably | a. lower the reserve requirement. | b. "close" the discount window. | c. buy government securities. | d. lower the discount rate. |
| 44. What is the interest rate banks charge on loans to their best business customers? | a. Discount rate | b. Prime rate | c. Margin rate | d. Reserve rate |
| 45. If the Federal Reserve system wanted to decrease the money supply, or at least slow down its rate of growth, it could do this by | a. decreasing the discount rate. | b. increasing the prime rate. | c. increasing the reserve requirement. | d. increasing the margin rate. |
| 46. The profit motive | a. leads to lower prices, better quality, and greater variety. | b. leads to better quality and higher prices. | c. leads to less efficiency. | d. should not be associated with capitalism. |
| 47. Which of the following is not a reason why a seller may not be able or willing to make a higher profit? | a. Laws which would limit the pursuit of profits | b. To avoid taking risks | c. To work less | d. Decrease in price of advertising |
| 48. Profit can best be described as | a. the amount of money left after all costs of production have been paid. | b. the amount of money left after all the costs of production and distribution have been paid. | c. the amount of money left after all costs of production, distribution, and taxes have been paid. | d. the amount of money left after all costs of production, distribution, taxes, and loans have been paid. |
| 49. The break-even point is | A. the amount of output needed to cover total costs. | b. the point of profit-maximization. | c. the point at which sales go higher and profits increase. | d. the point where marginal costs equal marginal revenue. |
| 50. Which of the following is not a fixed cost? | a. Depreciation | b. Cost of electrical power | c. Property taxes | d. Rent payments |
| 51. When a plant is idle and output is zero, a firm incurs | a. out-of-pocket costs. | b. fixed costs | c. permanent costs. | d. variable costs. |
| 52. A conspiracy to fix prices to maximize profits without the public or government knowing is | a. collusion. | b. pure competition. | c. price leadership. | d. rationing. |
| 53. Analyzing the additional cost incurred and additional revenue earned by increasing output by one unit is | a. elasticity analysis. | b. marginal analysis. | c. break-even analysis. | d. variable analysis. |
| 54. Costs of pollution are known as | a. externalities. | b. overhead. | c. non-controlling. | d. subsidies. |
| 55. Oil prices fell during the 1980s for all of the following reasons except | a. conservation. | b. it proved impossible to find alternative sources of energy. | c. the OPEC cartel weakened. | d. high oil prices in the 1970s encouraged a greater supply. |
| 56. Resources become scarce in a market economy | a. only if they are wasted. | b. when government does not control the supply. | c. when demand for resources is greater than supply. | d. because too few non-essential goods and services are produced. |
| 57. Which of the following is not included in the Fair Labor Standards Act? | a. Banned employment of all children 14-years-old or younger, except in certain agricultural jobs | b. The provision that men and women receive equal pay for equal work | c. Set a maximum work week | d. Set a minimum wage for most workers |
| 58. What percent of the labor force in the United States belongs to a labor union? | a. 5 percent | b. 20 percent | c. 45 percent | d. 66 percent |

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| 59. Some workers are without a job, want a job, but have looked unsuccessfully for such a long time that they have, in effect, “given up” the search. Which of the following is not true of these workers? | a. Officially, they are counted as “not in the labor force” because they are not actively seeking work, but they do want a job. | b. These workers are officially labeled “discouraged workers.” | c. During deep recessions and in some areas of the countries at all times, the number can be considerable. | d. These workers are said to be “frictionally unemployed.” |
| 60. Which of the following is not true? | a. Generally, the rates of return for large businesses are about the same as those of much smaller companies. | b. Generally, as companies become larger, they become more efficient. | c. Anti-trust suits are filed in an attempt to break up giant corporations. | d. Small businesses are able to compete efficiently with large businesses because of “economies of scale.” |
| 61. Most retail stores in the United States operate in what kind of market? | a. Monopoly | b. Oligopoly | c. Pure competition | d. Monopolistic competition |
| 62. Which of the following arguments is used as a justification for monopolies? | a. Equitable prices | b. Equitable allocation of resources | c. Economy of scale | d. Use of political power |
| 63. The first important law against monopolies in the United States was the | a. Sherman Antitrust Act. | b. Robinson-Patman Act. | c. Clayton Antitrust Act. | d. Norris-Laguardia Act. |
| 64. An example of a technological monopoly is | a. the only grocery store in the city. | b. a patent. | c. a city water system. | d. the United States Post Office. |
| 65. An economic market is A. | a place where business exchanges are made face-to-face between buyers and sellers. | b. an arrangement that brings buyers and sellers together. | c. classified according to its geographic location. | d. a regulatory body. |
| 66. Medicaid, a state and federal program | a. provides low-cost health care for the aged and disabled. | b. includes food stamps, veteran’s benefits, and payments to the aged, blind, and disabled. | c. provides free health care for people with low incomes and for the disabled. | d. provides money to needy parents raising small children. |
| 67. An example of a tax based on the Benefit Principle of Taxation is | a. a tax on earnings. | b. the gasoline tax. | c. a tariff. | d. the corporate income tax. |
| 68. The second largest category of federal spending is | a. Social Security. | b. veteran’s benefits. | c. agriculture. | d. space and science technology. |
| 69. Which of the following is not part of the Gramm-Rudman-Hollings legislation? | a. Requires the federal government to balance the budget eventually | b. Includes a series of automatic budget reductions | c. Includes automatic tax increases to balance the budget | d. Exempts programs such as food stamps and Social Security from budget cuts |
| 70. Reaganomics includes an emphasis on | A. avoiding budget deficits. | b. deregulation. | c. increasing both taxes and the role of government. | d. automatic stabilizers. |
| 71. Federal social taxes and contributions to (FICA) are | A. paid only by those persons who receive services. | b. less for self-employed persons (other than farmers). | c. progressive up to a point, then they become regressive. | d. proportional up to a point, then they become regressive. |

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| 72. Which of the following is not true of the Consumer Price Index? | a. It is compiled monthly by the Federal Bureau of Labor Statistics. | b. It measures the change in price over time of about 400 goods and services used by the average household. | c. A base year is a year used as a point of comparison for other years in a series of statistics. The base year is 1988 and given a value of 100. | d. It can be used to compare inflation from year to year. |
| 73. Inflation caused by labor groups and others driving up prices of manufacturing inputs is known as | a. government deficits. | b. cost-push. | c. demand-pull. | d. an increase in the money supply. |
| 74. The explanation for inflation that blames the Federal Reserve's failure to balance money supply growth is known as | a. wage-price spiral. | b. cost-push. | c. excessive monetary growth. | d. government deficit. |
| 75. The effects of inflation include all of the following except | a. inflation favors creditors over debtors. | b. the value of the dollar declines. | c. high-risk investments seem attractive. | d. higher interest rates change consumer spending habits. |
| 76. The index of leading indicators is used to predict | a. price levels. | b. easy money. | c. fiscal policy. | d. turning points. |
| 77. A business failure results in the owners losing their homes, automobiles, and other personal property in addition to their business assets. This situation is an example of | a. limited life. | b. unlimited liability. | c. limited liability. | d. unlimited life. |
| 78. Common stock | a. gives its owner one vote for each share owned. | b. owners receive dividends before preferred stock owners do. | c. guarantees a dividend. | d. does not give the owner the right to select the board of directors. |
| 79. The combination of the two banks, Chase National and the Bank of Manhattan, to form Chase Manhattan is an example of | a. horizontal merger. | b. a service cooperative. | c. a conglomerate. | d. a vertical merger. |
| 80. Profits paid to stockholders are called | a. interest. | b. capital income. | c. dividends. | d. principal. |
| 81. A person who lends money to a corporation is | a. a stockholder. | b. a cooperative. | c. an owner. | d. a bondholder. |
| 82. Which of the following is not an advantage of a corporation? | a. Owners of the corporation do not have to devote time to the company to make money on their investment. | b. The life of the company is not affected by the death of the owners. | c. Because the profits of the company are taxed by the federal government, the owners of the company do not have to pay federal income taxes on their personal income. | d. The corporation, and not its owners, is legally responsible for its debts. |
| 83. Which of the following is not true about investing in bonds? | a. A bond is a certificate issued by a company or government in exchange for borrowed money. | b. Unlike investing in stocks, the interest earned on bonds is never taxed as personal income. | c. Savings bonds are sold for less than their stated value. | d. At the end of the stated period, the full amount of the borrowed money of the bond is repaid. |
| 84. Which of the following is not a stock exchange? | a. National Association of Securities Dealers Automated Quotations | b. New York Stock Exchange | c. Midwest Stock Exchange | d. United States National Exchange |

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| 85. The use of non-public information by individuals to make a profit on the exchange of stock is called | a. short-run risk taking. | b. futures trading. | c. stock acceptance. | d. insider trading. |
| 86. Which of the following is not true of mutual funds? | a. Most mutual funds hold a variety of stocks or bonds. | b. Professionals with experience in the stock market make decisions about how to invest your money. | c. Interest or dividends are exempt from personal income tax, however, profits are taxed. | d. You are investing a little bit in a large number of stocks. |
| 87. Businesses tend to merge because they want | a. to become larger and more efficient. | b. unlimited liability. | c. to increase inventory. | d. to do away with special taxes. |
| 88. Stagflation is | A. high unemployment and rising prices. | b. low unemployment and rising prices. | c. high unemployment and falling prices. | d. low unemployment and falling prices. |
| 89. The crowding-out effect results from | a. changes in the tax system. | b. heavy government borrowing. | c. sale of treasury bonds. | d. a cut in government expenditures. |
| 90. Under which market structure do the steel, automobile, and tobacco industries fall? | a. Oligopoly | b. Monopoly | c. Monopolistic competition | d. Pure competition |
| 91. Which of the following statements is not true of employment/unemployment? | a. A person is employed when they have a job. In the United States only one hour of paid work a week is sufficient to be considered employed. | b. people are considered unemployed when they are without a job and actively seeking one. Active seeking includes such behaviors as reading want ads, contacting employers, and using the services of the Public Employment Agencies. | c. The unemployment rate is the number of unemployed people as a percentage of the total population over the age of 16. | d. The labor force consists of all employed and unemployed people. |
| 92. Which of the following is not a fossil fuel? | A. Coal | b. Solar | c. Oil | d. Natural gas |
| 93. Firms that can more easily restrict output and maximize profits are | a. pure competitors. | b. monopolistic competitors. | c. oligopolies. | d. monopolists. |
| 94. Which of the following is not included when measuring the supply of money in the economy? | a. Paper money and coins | b. Money market mutual funds | c. Value of stock certificates | d. Time deposits |
| 95. Which of the following would accompany a large U.S. trade deficit? | a. A balance of payments surplus | b. Exports are greater than imports | c. Strength of the dollar remains the same | d. Unemployment in export industries |
| 96. Utility is defined as the | a. ability to change or be flexible. | b. things wanted, above all others, first choice. | c. amount of goods and services you can actually buy with your income. | d. power that a good or service has to satisfy a want. |
| 97. Which of the following is true of equilibrium prices? | a. An equilibrium price is always a "fair" price. | b. In the equilibrium price, the plans of buyers and the plans of sellers are inverse. | c. Whenever the market price of a good falls, a surplus has developed. | d. At prices above the equilibrium price, suppliers produce more than consumers demand in the marketplace. |

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| 98. The Dow Jones Industrial Average is | a. an average of price changes of 500 representative stocks. | b. an average of closing prices of 30 selected stocks. | c. an average of leading stocks reported daily by the AMEX. | d. also known as the Standard and Poor's Index. |
| 99. In the system of floating exchange rates, what determines the value of one nation's currency in relation to those of another nation? | a. International Trade Bank | b. Law of supply and demand | c. Exchange rate determined by each country | d. Securities and Exchange Commission |
| 100. Firms that can more easily restrict output and maximize profits are | a. pure competitors. | b. monopolistic competitors. | c. oligopolies. | d. monopolists. |

2002 FBLA ECONOMICS ANSWER KEY

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| 1. B | 26. A | 51. B | 76. D |
| 2. A | 27. A | 52. A | 77. B |
| 3. B | 28. B | 53. B | 78. A |
| 4. A | 29. A | 54. A | 79. A |
| 5. B | 30. D | 55. C | 80. C |
| 6. A | 31. B | 56. C | 81. D |
| 7. B | 32. D | 57. A | 82. C |
| 8. B | 33. C | 58. B | 83. B |
| 9. A | 34. D | 59. D | 84. D |
| 10. B | 35. C | 60. D | 85. D |
| 11. B | 36. A | 61. D | 86. C |
| 12. A | 37. A | 62. C | 87. A |
| 13. B | 38. C | 63. A | 88. C |
| 14. A | 39. B | 64. B | 89. B |
| 15. A | 40. D | 65. B | 90. A |
| 16. B | 41. C | 66. C | 91. C |
| 17. B | 42. B | 67. B | 92. B |
| 18. A | 43. C | 68. A | 93. D |
| 19. B | 44. C | 69. C | 94. C |
| 20. A | 45. C | 70. B | 95. D |
| 21. B | 46. A | 71. D | 96. D |
| 22. C | 47. D | 72. C | 97. D |
| 23. A | 48. C | 73. B | 98. B |
| 24. D | 49. A | 74. C | 99. B |
| 25. B | 50. B | 75. A | 100. D |