

# KEY

Test Number 879

## Free Enterprise Economics

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1. D

Contract. A contract is an agreement between two or more businesses stating that one party is to do something in return for something provided by the other party. Contract law recognizes contracts as voluntary promises that must be fulfilled. If Business A fails to honor its agreement to supply Business B with a good or service, Business A is in breach of contract. This is a situation that is covered by contract law, and Business B would be able to appeal to the legal system to enforce the contract. Trade law deals with transactions between nations. Antitrust laws deal with restraint of trade. Property law deals with real property.

SOURCE: BL:001

SOURCE: Jennings, M.M. (2000). *Business: Its legal, ethical and global environment* (5th ed.) [pp. 386-389]. Cincinnati: West Legal Studies in Business, South-Western College Publishing.

2. D

Intellectual property. Intellectual property is a type of intangible personal property that many businesses own. Intellectual property includes items such as ideas, formulas, and distinctive names and symbols that create recognition for a business. Federal law protects this type of property with patents and copyrights and by registering trademarks and trade names. The laws prevent other companies from taking these forms of intangible property. The use of patents and copyrights and the registering of trademarks and trade names do not protect a business's executive contracts, product liability, or operating agreements.

SOURCE: BL:001

SOURCE: Jennings, M.M. (2000). *Business: Its legal, ethical and global environment* (5th ed.) [pp. 488-501]. Cincinnati: West Legal Studies in Business, South-Western College Publishing.

3. C

Reorganize. There are several forms of bankruptcy and one is Chapter 11. The advantage to a business of filing Chapter 11 bankruptcy is that the process allows the business to reorganize in an attempt to keep operating. Businesses that are unable to pay their debts but think that they can become solvent by reorganizing often file Chapter 11. As a result, they have time to restructure or find additional financing to pay creditors. A business liquidates when it files Chapter 7 bankruptcy. Filing bankruptcy does not eliminate the obligation to pay taxes. As part of reorganizing, a business might sell certain assets to generate income to pay creditors. However, selling assets is not usually considered an advantage.

SOURCE: BL:001

SOURCE: Jennings, M.M. (2000). *Business: Its legal, ethical and global environment* (5th ed.) [pp. 480-481]. Cincinnati: West Legal Studies in Business, South-Western College Publishing.

4. C

Searching for oil under the ocean. The floor of the ocean is another place we can look for oil besides land. Natural gas is an alternative resource. Conserving oil to prevent waste and paying a higher price for it are not ways of finding more oil.

SOURCE: EC:003

SOURCE: EC LAP 14—Economic Resources

5. A

Managerial assistance and training are usually not part of the arrangement. The product trade-name franchise is an independent sales relationship between a supplier and a dealer to stock and sell a specific or exclusive line of goods. The other alternatives are characteristics of business-format franchises.

SOURCE: BL:003

SOURCE: BA LAP 7—Own It Your Way (Types of Business Ownership)

6. D

Corporation. IBM, Texaco, and General Motors are all large businesses owned by their shareholders, who own stocks in the company. These businesses are operated under written permission from the states or providences in which they operate. A sole proprietorship is a business owned and operated by one person. A partnership is owned by two or more people. A franchisee purchases the rights to operate a business using the parent company's (franchisor's) name.

SOURCE: BL:003

SOURCE: BA LAP 7—Own It Your Way (Types of Business Ownership)

7. C

General partnership. A general partnership is designed to combine the capital, experience, and abilities of two or more people. Corporation ownership would not be acceptable because Karla and Brad's only involvement would be in the growth and possible profits of the business by buying shares of stock. A limited partnership would allow Karla and Brad to invest but have limited responsibilities in operations and management. A sole proprietorship would be owned by one person.

SOURCE: BL:003

SOURCE: BA LAP 7—Own It Your Way (Types of Business Ownership)

8. B

Housing. The Bureau of Labor Statistics compiles the Consumer Price Index (CPI), which is a listing of the current prices of thousands of consumer goods and services purchased by the typical urban family. Housing is one of the main categories because most families spend a significant portion of their incomes on housing. The CPI indicates the rate of increase for the cost of housing from the base year of 1982 to the present. Exports are goods or services sold to other countries. Farming is a category in the Producer Price Index. Imports are goods and services bought from other nations.

SOURCE: EC:044

SOURCE: Wilson, J.H., & Clark, J.R. (1997). *Economics* (pp. 450-452). Cincinnati: South-Western Educational.

9. B

Rise at different rates. Prices in the various categories of goods and services rise at different rates; therefore, the government uses the Consumer Price Index (CPI) to measure inflation. The CPI measures the changes in price of certain categories of goods and services that the average household uses. These categories include food, clothing, housing, transportation, etc. Because the price of food may increase more than the price of clothing, the government measures both and calculates an average in order to determine the rate of inflation. If all prices changed proportionately or rose at the same rate, the government would need to measure only one category in order to determine the level of inflation. Not all prices decrease at the same time or fluctuate by season.

SOURCE: EC:044

SOURCE: Gottheil, F.M. (1999). *Principles of economics* (2nd ed.) [p. 422]. Cincinnati: South-Western College.

10. D

111.1. The Consumer Price Index (CPI) measures the changes in price of certain categories of goods and services, the market basket, that the average household uses. One way that the federal government uses the CPI is to determine how much the cost of living increases or decreases from year to year. To calculate the Consumer Price Index for this year, divide the cost of the current market basket by the cost of the same market basket in the base year ( $\$750 \div \$675 = 1.111$ ). Then, multiply that amount by 100 to determine CPI ( $1.111 \times 100 = 111.1$ ). Remember that CPI for the base year is always 100; therefore, the percent of increase in CPI from the base year to the current year is 11.1% ( $111.1 - 100.0 = 11.1$ ). The cost of living has increased 11.1% from the base year to the current year.

SOURCE: EC:044

SOURCE: McEachern, W.A. (1997). *Economics: A contemporary introduction: Annotated instructor's edition* (4th ed.) [pp. 162-163]. Cincinnati: South-Western College.

11. D

Government purchases. Government purchases of goods and services is one of the categories of expenditures used in calculating GDP. Wages paid by the federal government to military personnel are for the services these individuals provide to the country. Personal consumption expenditures and consumer spending refer to all of the consumer goods and services sold during the year. Gross private investment is the value of all capital goods created in the economy during the year and inventories held by businesses from current production.

SOURCE: EC:017

SOURCE: EC LAP 1—Gross Domestic Product

12. B

Worker productivity. Worker productivity is the amount of work a worker can perform in a certain period of time. Gross domestic product, the final total value of all goods and services produced within a country's geographic boundaries in a year's time, is the sum of net exports, government purchases, personal consumption, and gross private domestic investment.

SOURCE: EC:017

SOURCE: EC LAP 1—Gross Domestic Product

13. A

Hopes they will become trading partners. Trading partners are nations that sell their goods and services to each other. There are many emerging nations that lack the skilled workers, advanced technology, and capital resources needed in order to become strong nations. The United States has the ability to help these countries in many different ways, and it does so in the hopes that they will eventually become trading partners. Because the United States is already an important world power, it is expected to provide all kinds of assistance to less-fortunate countries; but that is not the basic reason it offers aid.

SOURCE: EC:017

SOURCE: EC LAP 1—Gross Domestic Product

14. C

Gross domestic product. Gross domestic product, or GDP, is the final market value of the total output of all goods and services produced within a country's geographic boundaries during a year's time. GDP is used by economists to measure the health of the economy. Economic order quantity is the amount of stock that can be ordered at the greatest advantage to the business. A medium of exchange is something of value that can be used to obtain goods and services. Population data is information pertaining to the residents of an area including vital statistics, types of households, ethnic or racial background, numbers of residents, and forecasts of future increases or decreases.

SOURCE: EC:017

SOURCE: EC LAP 1—Gross Domestic Product

15. A

Deficit spending. Deficit spending occurs when the federal government spends more than it takes in. For many years, the government has engaged in deficit spending to fund its activities, which has resulted in an enormous national debt. One way for the federal government to begin to reduce the national debt is to eliminate deficit spending. By spending less than it takes in, the government will be able to begin to pay off the debt. Transfer payments are monies paid by the government in which no goods or services are received in exchange, such as Social Security payments and veterans' benefits. The federal government uses some of the money it takes in to support education and provide funding to states. The federal government would not be able to eliminate these services.

SOURCE: EC:038

SOURCE: Brown, B.J., & Clow, J.E. (1997). *Introduction to business: Our business and economic world: Teacher's wraparound edition* (4th ed.) [pp. 299-301].  
New York: Glencoe/McGraw-Hill.

16. D

\$3.3 million. Countries are in debt if they spend more than they take in and borrow the money to make up the difference. National debt is an economic problem for many countries because they must find ways to pay the debt while continuing to operate and provide services to their citizens. Some countries raise taxes in order to earn additional money to pay off their debt. To determine the amount of a country's national debt if it spends 6% more than its revenue of \$55 million, multiply the total revenue by the percentage of excess spending ( $\$55,000,000 \times 6\%$  or  $.06 = \$3,300,000$  or \$3.3 million).

SOURCE: EC:038

SOURCE: O'Sullivan, A., & Sheffrin, S.M. (2003). *Economics: Principles in action* (pp. 405-406).  
Upper Saddle River, NJ: Prentice Hall.

17. C

3.6%. The Consumer Price Index (CPI) measures the changes in price of specific goods and services used by the average household. The increase in price from month to month or from year to year indicates the level of inflation, which is the rise in prices. In order to calculate the rate of inflation based on CPI, subtract the CPI for 2002 from the CPI for 2003 ( $137.3 - 132.5 = 4.8$ ). Divide the CPI increase by the 2002 CPI figure ( $4.8 \div 132.5 = .036$ ). Then, multiply that figure by 100 to calculate the rate of inflation from 2002 to 2003 ( $.036 \times 100 = 3.6\%$ ).

SOURCE: EC:038

SOURCE: Arnold, R.A. (2004). *Economics* (6th ed.) [pp.131-132]. Cincinnati: Thomson/South-Western.

18. C

A friend. This want does not require you to spend money in order to satisfy it; therefore, it is a noneconomic want. Although police protection may appear to be a free service, it is provided through tax dollars. The desires for police protection, a college education, and concert tickets all require the consumer to spend money.

SOURCE: EC:002

SOURCE: EC LAP 10—Goods and Services

19. B

No, it is not useful. To be considered an economic good, an item must be a tangible object that is useful, scarce, and transferable. Although dust is tangible, it does not satisfy human wants and is not considered useful or scarce. It is, however, transferable.

SOURCE: EC:002

SOURCE: EC LAP 10—Goods and Services

20. C

Economic goods. Economic goods are physical objects that are useful, scarce, and transferable which satisfy economic wants. Flowers are economic goods because you are able to feel, smell, and see them. They are useful because they are beautiful, and many people want to plant them in their yards. If they are seasonal flowers, they are also scarce because they are only available at a certain time of the year. Specialty goods are consumer goods with special or unique characteristics. Noneconomic wants are desires for something that can be obtained without spending money. Economic services are productive acts that satisfy economic wants.

SOURCE: EC:002

SOURCE: EC LAP 10—Goods and Services

21. B

Economic. An economic want is a desire for something that can only be obtained by spending money. Competing wants exist when we want more than one thing at the same time. Wants that can be satisfied without spending money are known as noneconomic wants. When one want is satisfied and there is at least one other want waiting to take its place, the wants are considered unlimited.

SOURCE: EC:002

SOURCE: EC LAP 10—Goods and Services

22. D

Human resources. Human resources become limited when there is a lack of training for a position, when the supply of eligible people changes, and when there is a lack of interest in a certain job. Capital goods and natural resources become limited in different ways. Economic resources include human resources, natural resources, and capital goods.

SOURCE: EC:003

SOURCE: EC LAP 14—Economic Resources

23. D  
Franchising. Franchising is a method of distributing goods and services through a licensing arrangement between the franchisor and the franchisee. Articles of incorporation outline a corporation's name, purpose, location, amount of stock to be issued, names of the board of directors, and other information about a business. A charter is a government permit that allows a business to operate as a corporation. A partnership agreement is a written document that specifies the terms of a partnership.  
SOURCE: BL:003  
SOURCE: BA LAP 7—Own It Your Way (Types of Business Ownership)
24. A  
Trees. As trees are cut, people can plant new trees so that more timber will be available. Nature replaces oil deposits and minerals over a period of years. Water is replaced by rain.  
SOURCE: EC:003  
SOURCE: EC LAP 14—Economic Resources
25. D  
Economic. An economic want is something which you desire that has a monetary value. A car wash would have a monetary value attached to it. A noneconomic want is a desire for something that has no monetary value. Wants are unlimited because everyone has them, they change, and people are not able to obtain enough resources to satisfy all of their wants. A tangible want is the desire for something that is a physical object.  
SOURCE: EC:001  
SOURCE: EC LAP 6—Economics
26. D  
Unlimited, changing, and competing. Wants are considered unlimited because people always have them. People's desires change with different situations or circumstances. Wants are considered competing because people must choose which wants to satisfy at any one time. Compensating does not describe wants.  
SOURCE: EC:001  
SOURCE: EC LAP 6—Economics
27. C  
Economics. It is the process of deciding how to obtain the greatest satisfaction with limited resources. Countries, businesses, and consumers all need to meet their unlimited wants with the limited resources available. Decision making refers to choosing among various alternatives. Scarcity is a condition resulting from the gap between unlimited wants for goods/services and limited resources. Prioritizing refers to the process of ranking factors in order according to their importance.  
SOURCE: EC:001  
SOURCE: EC LAP 6—Economics
28. D  
Producers. Producers are the people who make or provide goods and services. Consumption relies on producers to provide goods and services. The relationship between consumption and production needs to be balanced so that enough goods and services are produced to satisfy consumers' wants, but not so many that producers lose money. A consumer is anyone who uses goods and services. Owners have possession of their resources. Deciders make decisions.  
SOURCE: EC:001  
SOURCE: EC LAP 6—Economics

29. C

Capable of satisfying wants and needs. Utility is usefulness added to products. There are four types of product utility: 1) Form utility—altering or changing the form or shape of a product in order to make it more useful to the consumer; 2) Place utility—making goods and services available where they are wanted or needed by consumers; 3) Possession utility—created when ownership of a product is transferred from the seller to the buyer; and 4) Time utility—making products available at the time they are wanted or needed by consumers.

SOURCE: EC:004

SOURCE: EC LAP 13—Use It (Economic Utility)

30. D

Possession. Possession utility is created when the ownership of a product is transferred from the seller to the customer. Credit plans allow customers to pay for their purchases gradually, thereby increasing their ability to own (possess) more products. Place utility involves making goods and services available at the place (location) they are wanted or needed by consumers. Form utility occurs when the shape or form of a product is altered in order to make it more useful to the consumer. Price is a component of the marketing mix but is not a type of economic utility.

SOURCE: EC:004

SOURCE: EC LAP 13—Use It (Economic Utility)

31. B

Location. Place utility is usefulness created by making sure that goods or services are available at the place where they are needed or wanted by consumers. Many businesses are located in places that make them easily accessible to consumers. Many types of businesses (e.g., small stores, service businesses) do not carry a wide selection of goods or have many salespeople. Their prices are often high.

SOURCE: EC:004

SOURCE: EC LAP 13—Use It (Economic Utility)

32. D

Consumer demand. When demand for a product is high, production is increased to ensure that adequate quantities are available for sale. When demand is low, production is cut back to prevent the possibility of loss from surplus products that cannot be sold at prices high enough to cover the costs of production. The utility, or usefulness, of a product helps to create consumer demand for that product. Demand may, or may not, be affected by factors in the environment.

SOURCE: EC:005

SOURCE: EC LAP 11—Supply and Demand

33. A

Supply and demand. The law of supply and demand is an economic principle which states that the supply of a good or service will increase when demand is great and decrease when demand is low. Producers and consumers generally control supply and demand. Market price is the price that exists in the marketplace at any particular moment. Equilibrium price is the price at which the quantity of a good that buyers want to buy and the quantity that sellers are willing to sell are equal.

SOURCE: EC:005

SOURCE: EC LAP 11—Supply and Demand

34. D

Product utility. The basic demand for a product is determined by its utility, or usefulness, to potential consumers. Costs of raw materials, water, electricity, rent, building and equipment expenses, and transportation are examples of production costs. Labor costs are the wages and benefits paid to workers. These two areas exert a great influence on the supply of goods and services. Government regulations may also affect the supply of products, especially if meeting government standards increases production costs.

SOURCE: EC:005

SOURCE: EC LAP 11—Supply and Demand

35. B  
Inelastic. Inelastic demand is a form of demand in which changes in price do not affect demand. Increasing the price of a product with inelastic demand means that sales revenues will increase because consumers will continue to buy the product even though it costs more. Elastic demand is a form of demand in which changes in price correspond to changes in demand. This form of demand is, therefore, flexible, and as prices go up, demand goes down, and sales revenues decrease. Whether demand is or is not predictable, or can be forecast, does not change the relationship between price and demand.  
SOURCE: EC:005  
SOURCE: EC LAP 11—Supply and Demand
36. B  
Excess supply causes a decrease in prices. Excess supply is the situation that exists when supply is greater than demand, causing prices to decrease. Buyers and sellers have opposing objectives in the marketplace. Buyers want to make sure the product is worth the price, and sellers want to make a maximum profit. The equilibrium price is the point at which the quantity of a good that buyers want to buy and the quantity that sellers are willing to sell at a certain price are exactly equal. This rarely occurs. Rationing determines how scarce resources will be distributed.  
SOURCE: EC:006  
SOURCE: EC LAP 12—Price
37. D  
A trial-and-error process. The equilibrium price is the price at which sellers are willing to sell and buyers are willing to buy, but it seldom exists in the marketplace. Sellers often use a trial-and-error process to determine the equilibrium price because the forces that decide this price are always changing. A free enterprise system is an economic system in which the interaction of consumers and producers determines how much will be available in the marketplace. The cost of production is the total amount of money spent on costs of materials, labor, taxes, etc., to manufacture economic goods and services. The standard of living is the quality of life and general living conditions of consumers.  
SOURCE: EC:006  
SOURCE: EC LAP 12—Price
38. A  
Whoever is willing and able to pay the price. Prices ration limited resources, goods, and services to those most willing to pay for them. Costliness, efficiency, and availability of information affect prices but do not determine who gets goods and services.  
SOURCE: EC:006  
SOURCE: EC LAP 12—Price
39. A  
1 to 2. Relative price is one price compared to another, that is, the ratio between the two prices. For example, if a product costs \$7.50 and another product costs \$15, the price ratio is 1 to 2 because the cost of the second product is twice that of the first product. Relative price is not expressed as a percentage, as one-half, or as double. It is expressed as a ratio such as 1 to 2, or 2 to 3.  
SOURCE: EC:006  
SOURCE: EC LAP 12—Price
40. D  
Training. Providing training programs for employees helps to fulfill businesses' social responsibility to their employees. Such training usually results in increased job satisfaction, and most businesses feel it is money well spent. Training is beneficial to employees and may lead to promotions and pay raises. Businesses usually do not offer financing, although some large organizations operate credit unions.  
SOURCE: EC:070  
SOURCE: MB LAP 6—Business and Society



41. D  
Buys and sells goods. The trade industries include both retail and wholesale businesses. They are responsible for moving goods from producers to consumers or industrial users. They do not modify or change the form of products. They sell finished goods rather than provide goods in their raw state.  
SOURCE: EC:070  
SOURCE: MB LAP 6—Business and Society
42. D  
Limited-line. Limited-line businesses specialize in the products that they offer for sale. They usually carry an excellent assortment of those goods. Service businesses perform intangible activities that satisfy the wants of consumers or industrial users. Specialty businesses typically carry a very limited variety of products. Discount businesses sell products at reduced prices and usually carry a variety of items.  
SOURCE: EC:070  
SOURCE: MB LAP 6—Business and Society
43. A  
Ownership of. Service businesses perform intangible activities and sell services rather than goods. If a service business uses a good to perform its service, the business usually does not transfer ownership of the good to customers. For example, hotels provide accommodations for travelers, but the travelers do not receive ownership of the room. Customers usually receive the benefits from, usefulness of, and information about the goods used to perform services.  
SOURCE: EC:070  
SOURCE: MB LAP 6—Business and Society
44. B  
Socialist command. Socialist command economic systems are also characterized by government control of wages, high taxes, and many welfare programs. In a communist command system, most of the means of production and distribution are owned and controlled by the government. In a capitalist system, individuals and businesses own the means of production. People in a traditional economic system consume all that they produce.  
SOURCE: EC:007  
SOURCE: EC LAP 17—Economic Systems
45. B  
Market. Consumers cast "economic votes" for products to be produced when they purchase those products in the marketplace. Basic economic questions in a traditional economy are answered by social custom. In a command economy, the government makes economic decisions. A socialist economy is a form of command economy.  
SOURCE: EC:007  
SOURCE: EC LAP 17—Economic Systems
46. A  
Is below government expectations. Productivity in a communist command economy is usually below government expectations in all areas. Government sets quotas that businesses are expected to meet, but workers are not motivated to meet those goals because of the lack of rewards. In some cases, workers are even penalized for reaching quotas because even higher quotas are set. Productivity is not equal to that in a market economy, it reflects government decision rather than consumer demand, and it results in shortages rather than quantities of goods.  
SOURCE: EC:007  
SOURCE: EC LAP 17—Economic Systems
47. A  
Courts. Government's first involvement in disputes between businesses is in the court system. Force and fines may be used to enforce a court ruling. Government is not involved in negotiation unless directed to do so by the courts.  
SOURCE: EC:008  
SOURCE: EC LAP 16—Government and Business

48. D

Natural monopoly. A natural monopoly is a single business that influences the entire production of a particular good or service because it is in the best interests of the public for the business to do so. A public utility is an example of a natural monopoly that is controlled and regulated by government in order to safeguard the best interests of consumers. A monetary policy is a government policy that determines the amount of money that will be in circulation and the level of interest rates. A watchdog agency is a government regulatory agency that protects the rights of businesses and individuals. A welfare program is a government program of public assistance.

SOURCE: EC:008

SOURCE: EC LAP 16—Government and Business

49. C

Excise. Excise is a special government tax on certain items, such as gasoline. Government collects several kinds of taxes from businesses. Businesses are responsible for collecting income and social insurance taxes from employees and sales, excise, and duty taxes from customers. Businesses pay tax on their income and property, and they also pay fees for licenses and permits. Subsidy is government financial help given to a business. Bonds are interest-bearing certificates issued by government that promise to pay bond owners a certain sum at a specified time. Discount is the amount by which the price of something is reduced.

SOURCE: EC:008

SOURCE: EC LAP 16—Government and Business

50. B

Monetary. The government's monetary policy determines the amount of money that will be in circulation and the level of interest rates. By setting the level of interest rates, the monetary policy has a direct effect on business. Raising the prime interest rate has a negative effect on businesses by making it more expensive to borrow money. Higher interest rates may slow business activities in general, while lower interest rates may speed up business activities. The government's fiscal policy sets levels of government spending and taxation. Subsidy is government financial help given to a business. Profit is the monetary reward a business owner receives for taking the risk involved in investing in a business.

SOURCE: EC:008

SOURCE: EC LAP 16—Government and Business

51. B

A major incentive for work/production. Monetary gain enables us to purchase goods and services which satisfy our wants. If a business does not make a profit, it would not be able to expand or employ people. If no one made a profit, then the goods and services which we want would not be available. In other economic systems, profit-making may be a goal; however, it is not primary.

SOURCE: EC:009

SOURCE: EC LAP 15—Private Enterprise

52. B

Businesses and individuals. In a private enterprise system, businesses and individuals own or control the economic resources. All citizens play a role in determining what will be produced, how it will be produced, and who will consume it. These decisions are not controlled by government agencies, influential citizens, entrepreneurs, or producers.

SOURCE: EC:009

SOURCE: EC LAP 15—Private Enterprise

53. B

Poverty. Private enterprise is the most productive economic system the world has ever known, but it does have some disadvantages. Property and income are not distributed equally, and poverty has not been eliminated. There are still many people who are not able to afford the basic necessities of life because they hold low-paying jobs or are unemployed. The private enterprise system promotes competition, freedom, and profit.

SOURCE: EC:009

SOURCE: EC LAP 15—Private Enterprise

54. B  
Revenues received from sales. Most businesses receive a large part of their income from sales. They may also receive income from investments and interest on bank accounts. Overhead is a term for certain kinds of operating expenses. The rate of stockturn tells the business how quickly items are selling and being reordered. The number of credit customers a business has does not indicate how much income the business will receive from them.  
SOURCE: EC:010  
SOURCE: EC LAP 2—Risk Rewarded (Profit)
55. D  
Profit. Profit is the monetary reward a business receives. The business must sell enough goods or services to pay its expenses before it can receive profit. Debt is something that is owed by a business or an individual. Free trade is the elimination of trade barriers between countries. Competition is the rivalry between two or more businesses to attract scarce customer dollars.  
SOURCE: EC:010  
SOURCE: EC LAP 2—Risk Rewarded (Profit)
56. B  
Income from sales minus cost of merchandise. Gross profit is money left after cost of merchandise expense is subtracted from total income. Net profit is money remaining after operating expenses are subtracted from gross profit.  
SOURCE: EC:010  
SOURCE: EC LAP 2—Risk Rewarded (Profit)
57. D  
Pure. Pure risks may result in a loss or no loss but will not result in a gain. These risks are the type that can be covered by insurance. Speculative risks are those risks that may result in a loss, no change, or a gain. They are not usually insurable. In some circumstances, either pure or speculative risk can be avoided or eliminated.  
SOURCE: EC:011  
SOURCE: EC LAP 3—Business Risk
58. D  
Government intervention. A common economic risk is government intervention, which may change customer demand or affect what will be profitable for a business to sell. A Food and Drug Administration decision that certain goods may be harmful to consumers' health may force a business to stop producing and selling the goods, thereby creating an economic risk for the business. Business conditions, product obsolescence, and increased competition are other factors that can create economic risks for businesses.  
SOURCE: EC:011  
SOURCE: EC LAP 3—Business Risk
59. D  
Economic. Economic risks are changes in the market that force prices to be lowered, products to change, or even businesses to fail. Changes in the market that may make some products go out of style are a type of economic risk. Natural risks result from such natural causes as floods, tornadoes, fires, lightning, blizzards, and earthquakes. Human risks are caused by human weakness and the unpredictability of employees and/or customers. Incompetence is a form of human risk whereby the employee does not have the skills, knowledge, or attitudes needed to succeed in the position.  
SOURCE: EC:011  
SOURCE: EC LAP 3—Business Risk

60. C

Transfer the risk. Along with reasonable prevention, risks may be transferred to some other person or business. This would most effectively be done through the purchase of insurance. Preventing the risk means to absolutely prevent the possibility of fire which is not realistic. If fire were to occur, even after thorough prevention, the business would experience a great financial loss if it was not insured. Retaining the risk means to do nothing about the risk. This would be an ineffective means of dealing with this particular risk. Avoiding the risk means to recognize and then avoid or eliminate the risk completely. It would be very difficult to completely avoid or eliminate the risk of fire.

SOURCE: EC:011

SOURCE: EC LAP 3—Business Risk

61. B

A business offers free gift wrapping. Competition encourages businesses to offer more services in order to attract and to keep customers. The other alternatives are more likely to be the results of a cost-reduction program than the results of competition.

SOURCE: EC:012

SOURCE: EC LAP 8—Ready, Set, Compete! (Competition)

62. A

Sales and rebates. Sales and rebates are examples of price competition used to attract the scarce dollars of customers. Businesses often hold special sales; and manufacturers offer rebates, which involve returning part of the price a customer pays for a good or service. The business has not offered to match competitors' prices or to give discounts or discount coupons.

SOURCE: EC:012

SOURCE: EC LAP 8—Ready, Set, Compete! (Competition)

63. C

Direct. Direct competition occurs between or among businesses that offer similar types of goods or services. Indirect competition occurs among businesses that offer dissimilar goods and services. Shared and monopolistic are not types of competition.

SOURCE: EC:012

SOURCE: EC LAP 8—Ready, Set, Compete! (Competition)

64. A

Gain a competitive advantage over other businesses. Competition is affected in a variety of ways by productivity. A business must be highly productive in order to compete successfully. The business that can produce goods or services efficiently can sell them to consumers at more competitive prices. This gives the business a competitive advantage over other businesses in the marketplace. Helping to increase the standard of living and providing a wealth of goods and services from which to choose are effects that productivity has on workers and society. The health of a country's economy can be determined by measuring its productivity, but this is not an effect on business.

SOURCE: EC:013

SOURCE: EC LAP 18—Productivity

65. D

GDP per capita. GDP (gross domestic product) per capita is the average productivity of individual workers calculated by dividing the gross domestic product by the worker hours required to produce it. When a country's GDP per capita grows at a faster rate than its population, the country's economy can grow. The standard of living is affected by productivity. Management should improve workers' quality of work life to help to increase productivity. Capital goods are manufactured or constructed items that are used to produce goods and services.

SOURCE: EC:013

SOURCE: EC LAP 18—Productivity

66. D  
Job simplification. Job simplification is the process of making changes in a job task so that the job can be done more easily or quickly. Improving methods of working will increase productivity by keeping employees from wasting time or duplicating their efforts. This can often be done by job simplification. Job orientation is job preparation or induction training in which new employees are acquainted with their surroundings, receive general information about the company and its policies, and are given specific information about their jobs. Mass production is the production of a few products in large quantities. Flextime is a scheduling procedure in which employees select their own working hours as long as they work the required number of hours.  
SOURCE: EC:013  
SOURCE: EC LAP 18—Productivity
67. A  
Task. Specialization by task occurs when workers perform only one small part of the total job. Specialization by stage of production occurs when more than one stage of production is needed to change a raw material into a finished product. Specialization by trade or profession refers to the type of work performed in order to earn a living. Specialization by use of resources refers to natural resources, capital goods, and human resources.  
SOURCE: EC:014  
SOURCE: EC LAP 7—Specialization of Labor
68. B  
Human resources. There are three main forms of specialization of human resources: specialization by trade or profession, specialization by stage of production, and specialization by task. Natural resources are resources found in nature, such as water, oil, and iron ore. Capital goods are manufactured resources used to produce goods and services. Division of labor is dividing a large job or large workforce into smaller unit parts in order to accomplish the job faster and easier.  
SOURCE: EC:014  
SOURCE: EC LAP 7—Specialization of Labor
69. C  
Alternative work schedules. Employees need to like what they are doing and be motivated to do it in order to be satisfied with their jobs. Companies increase job satisfaction by offering such features as alternative work schedules, which allow employees to work flexible hours. Allowing workers a voice in their work schedules tends to increase job satisfaction. Assembly-line work, lower pay for longer hours, and repetitious tasks are factors that usually reduce job satisfaction and increase employee boredom.  
SOURCE: EC:014  
SOURCE: EC LAP 7—Specialization of Labor
70. A  
The manager of a restaurant selects the monthly menu and designs a newspaper advertisement. Selecting the menu and designing an advertisement represent a variety of tasks and also a high degree of latitude concerning decision making. The relationship of scope and depth can change with a specific task, so the amounts of scope and depth vary at different times. A manager developing a monthly work schedule is an example of high depth. Signing time cards is low scope. Following guidelines to evaluate performance is an example of low depth.  
SOURCE: EC:014  
SOURCE: EC LAP 7—Specialization of Labor
71. D  
Apprentice. Apprentices work under the direct supervision of more experienced craftsmen while learning the trade. Journeymen and masters are experienced and skilled workers. A union member is a person who belongs to a labor union.  
SOURCE: EC:015  
SOURCE: EC LAP 5—Organized Labor

72. D

Sympathetic. Sympathetic strikes are often carried out by another local union belonging to the same national union as the striking union. A jurisdictional strike arises from a conflict between two competing unions over which union should be permitted to do a particular kind of work. A wildcat strike occurs when members of a local union stop work without the consent of their national organization. Union strike activities are limited by union rules, but limited does not refer to a type of strike.

SOURCE: EC:015

SOURCE: EC LAP 5—Organized Labor

73. D

Boycott. Boycotts can hurt a business's sales so much that management is compelled to agree to the union's terms. A closed shop is an illegal union security agreement requiring workers to be members of the union before they can be hired. A union strategy in which employees walk off the job is called a strike. A lockout is a company strategy in which the business is closed temporarily, and the employees are not allowed to work.

SOURCE: EC:015

SOURCE: EC LAP 5—Organized Labor

74. C

Wages. Unions and management experience conflicts because unions try to obtain more for their workers while management tries to increase profits. The number-one issue in labor-management negotiations usually is wages. Unions seek higher wages, while management seeks to reduce labor costs. Labor-management negotiations involve wages, job security, hours, fringe benefits, and working conditions. Negotiations do not cover the employee dress code, the amount of union dues, or education.

SOURCE: EC:015

SOURCE: EC LAP 5—Organized Labor

75. C

Diminishing returns. The law of diminishing returns states that, at some point, adding more employees does not proportionately increase productivity. Each business operates effectively with a certain number of employees who are able to make the best use of the business's resources. After that point is reached, hiring more employees causes an overabundance of employees in relation to the available resources. The additional employees get in each others' way, which causes an overall decrease in each employee's level of productivity. Negative returns is a stage of production in which businesses usually stop hiring employees. Marginal revenues and variable products are not economic laws.

SOURCE: EC:023

SOURCE: Gottheil, F.M. (1999). *Principles of economics* (2nd ed.) [pp. 161-163]. Cincinnati: South-Western College.

76. B

Marginal cost. Marginal cost is the increase in total costs resulting from the production of one more unit. For example, if a company produces widgets, it costs the company a certain amount of money to produce a specific number of widgets. If the company increases production, it will cost the company more money to produce more widgets. Marginal cost is the increase in costs to produce one more widget.

Revenue is income rather than expenses. Money supply is the total amount of coins and paper currency that circulates. Economic loss is a decrease in total output for an economy over a period of time.

SOURCE: EC:023

SOURCE: Gottheil, F.M. (2002). *Principles of economics* (3rd ed.) [pp. 182-184]. Mason, OH: South-Western.

77. B

Fixed. The law of diminishing returns is an economic principle that states that after a certain point, hiring additional employees will result in a decrease in the overall level of production. Most often, available resources are finite, which means that there are fixed amounts of resources available to produce goods and services (e.g., equipment). Overall productivity reaches its peak when there are a certain number of employees using all of the available resources to do the work. When there are too many laborers and not enough fixed resources, outputs decrease. Ecological, ethical, and transportation are not primary factors that affect a company in terms of outputs and productivity, or the law of diminishing returns.

SOURCE: EC:023

SOURCE: Gottheil, F.M. (2002). *Principles of economics* (3rd ed.) [pp. 174-175].  
Mason, OH: South-Western.

78. A

Peak. Peak is the top of the business cycle where productivity and sales are considered the highest. During the expansion phase, productivity and sales are increasing. Trough is characterized by very low production and small sales. Contractions are characterized by a decrease in production and sales.

SOURCE: EC:018

SOURCE: EC LAP 9—Business Cycles

79. B

Rise. When demand exceeds production capabilities, a rapid rise in prices known as inflation usually follows. As money becomes less valuable in an inflationary period, it takes more of it to purchase the same item or service. Prices do not stabilize when inflationary pressures are present and certainly will not decrease or contract under inflationary pressures.

SOURCE: EC:018

SOURCE: EC LAP 9—Business Cycles

80. C

Consumers must begin to buy more goods and services. The economy will stay at this low point of economic activity until people begin buying more goods and services. That rise in demand will set the economy on the expansionary phase of another business cycle. Before industry will be willing to produce more, there must be a demand for products. If industry saves all its excess cash, no products will be produced to sell. Investment in stocks and bonds will not increase production. It may, instead, delay an increase since consumers would be investing, rather than purchasing products.

SOURCE: EC:018

SOURCE: EC LAP 9—Business Cycles

81. A

Recession. A recession is a six-month's contraction in the gross domestic product (GDP). A recession usually results in rising unemployment, and people having less money to spend on consumer goods. Excess demand exists when consumers want more goods than are available to buy. Inflation is a rapid rise in prices that may occur when demand exceeds supply. A trade deficit results from more imports than exports.

SOURCE: EC:018

SOURCE: EC LAP 9—Business Cycles

82. C

Confidential. Some business records need to be maintained in a secure location because they contain confidential information. Some of these records contain confidential information about employees, such as pay rates and personal references. Other records that contain confidential information about promotional strategies and new product development might harm the business if they fell into the wrong hands. Historical information explains how the business started and is often published and made available to the public. Regulatory information is usually provided by the government.

SOURCE: NF:001

SOURCE: MN LAP 58—Business Records

83. C

Imports and exports. Nations need imports to obtain items that are in short supply and/or unavailable in the domestic market. They need exports to increase the opportunity for more jobs. Domestic trade is trade that occurs within a country. Trade centers are offices and display rooms set up by a government in foreign cities. Licenses and quotas are used to restrict trade between nations.

SOURCE: EC:016

SOURCE: EC LAP 4—Beyond US (International Trade)

84. C

Laws and attitudes. Rather than ship locally produced goods to foreign countries, many corporations locate factories and businesses abroad. These companies must comply with the different laws and attitudes of each nation in which they operate. Trade barriers are designed to limit trade by the use of tariffs, quotas, and licenses. Inspection standards regulate the quality of the products that countries allow to be imported. Balance of trade is the difference between a nation's exports and its imports.

SOURCE: EC:016

SOURCE: EC LAP 4—Beyond US (International Trade)

85. C

Customs and traditions. Cultural sensitivity involves being aware of the different customs, habits, and traditions of the people who live in foreign countries. Businesspeople need to be aware of the culture of their foreign counterparts in order to successfully trade with them, because the foreign customers may do business differently based on their customs and traditions. Businesspeople who trade successfully in the world market are willing to make accommodations to suit foreign customs and are sensitive to cultural differences. Businesspeople who trade with foreign countries also should be familiar with the local goods and services, materials and resources, and suppliers and competitors; but these are not factors involving cultural sensitivity.

SOURCE: EC:045

SOURCE: Johansson, J.K. (2000). *Global marketing: Foreign entry, local marketing & global management* (2nd ed.) [pp. 66-68]. Boston: Irwin/McGraw-Hill.

86. B

Gender. Gender refers to a person's sex. In many cultures, men and women do not have the same opportunities to participate in business. In some countries, women have almost no opportunity to work outside the home, and they are permitted to hold only menial positions. The culture and tradition of a country often has a strong influence on the role of men and women in business. The culture often assigns certain roles to men and women that they are expected to follow. A career is a person's occupation or work role. Safety is freedom from danger, risk, or injury. Morale is the state of a person's attitude or outlook on life that affects his/her approach to work.

SOURCE: EC:045

SOURCE: Johansson, J.K. (2000). *Global marketing: Foreign entry, local marketing & global management* (2nd ed.) [pp. 58-64]. Boston: Irwin/McGraw-Hill.

87. C

Social relationships. These groups are usually centered on a topic of interest to all members and make friendships possible between people who live on opposite sides of the world. They allow businesses to communicate with, and understand, people from diverse cultures. Groups are open to anyone with a computer and Internet connection, regardless of gender, culture, or class. Class systems relate to grouping people according to some standard. Gender roles refer to activities assigned to either men or women. Cultural values define the various behaviors and activities based on the beliefs of a given culture.

SOURCE: EC:045

SOURCE: Kling, R. (1996, July). *Social relationships in electronic forums*. Retrieved August 4, 2006, from <http://www.december.com/cm/mag/1996/jul/kling.html>



88. D  
To plan purchases. Budgets guide financial decisions such as what to buy and how much to pay. Businesses use budgets to estimate income to know how much money will be available to spend on purchases. By knowing when income is expected, businesses can plan to make purchases during a specific time period. Businesses do not use budgets to estimate income in order to increase losses, increase shrinkage, or develop services.  
SOURCE: FI:106  
SOURCE: FI LAP 3—Money Tracks (Nature of Budgets)
89. D  
Evaluation. Budgets are critical for evaluation of a business. When businesses want to know if they are accomplishing their goals, budgets show where they are on target and where they are not. By comparing original budget figures to actual figures, businesses can see specifically what cost more than expected or less than expected and make accommodations to meet their goals. One of the business's goals might be renovation. Businesses do not use budgets for research or for promotion, although they often allocate a certain amount of money in the budget for these items.  
SOURCE: FI:106  
SOURCE: FI LAP 3—Money Tracks (Nature of Budgets)
90. A  
\$1,875. Businesses budget for special events and promotional coupons because they affect sales and reduce income. If a business plans to distribute cents-off coupons, it needs to budget for the amount of money that will be lost due to customers' redeeming the coupons. In this example, the business plans to distribute 10,000 25-cents-off coupons that have a total value of \$2,500 ( $10,000 \times \$ .25 = \$2,500$ ). The business estimates that only 75% of the coupons will be redeemed. To determine that amount, multiply the total value by 75% ( $\$2,500 \times 75\%$  or  $.75 = \$1,875$ ).  
SOURCE: FI:106  
SOURCE: FI LAP 3—Money Tracks (Nature of Budgets)
91. A  
Department store. Durable goods are tangible items that should last a long time. Many items sold by department stores, such as appliances, carpeting, and furniture, are expected to last for quite a while. Marketing helps to create and stimulate demand for goods and services by informing people about them. Restaurants, food markets, and cosmetics companies are businesses that would use marketing to sell nondurable goods—tangible items that are consumed within a short time.  
SOURCE: MK:001  
SOURCE: BA LAP 11—Have It Your Way! (Marketing)
92. C  
Promotion. Promotion is a marketing function which communicates information about products, images, or ideas to consumers. Distribution is responsible for the physical movement or the transfer of ownership of a good or service from producer to consumer. Research is an activity that involves gathering and analyzing information about customers and what they will buy. Pricing is the marketing function that involves the determination of a price or an amount to charge a customer for a good or service.  
SOURCE: MK:001  
SOURCE: BA LAP 11—Have It Your Way! (Marketing)
93. B  
Refrigerator. Durable goods are tangible items that will last a long time. A new refrigerator is expected to last for several years. Interior design is a service, not a good. Pencils and pizza are nondurable goods because they are used up in a short time. However, all of these items can be marketed.  
SOURCE: MK:001  
SOURCE: BA LAP 11—Have It Your Way! (Marketing)

94. D  
Beneficial. For both the customer and the seller, striking the right pricing balance makes the exchange beneficial. Of course, striking the right balance is not going to make the exchange painful or disappointing. "Manageable" implies that the exchange would be controllable or convenient — which may or may not be true.  
SOURCE: MK:001  
SOURCE: BA LAP 11—Have It Your Way! (Marketing)
95. B  
Imports. Imports provide us with important consumer goods, materials for manufacturing, and essentials for national defense. U.S. exports are products made in this country and sold in other countries. Contraband is anything prohibited by law from being imported or exported. Trade deficits occur when imports are greater than exports.  
SOURCE: EC:016  
SOURCE: EC LAP 4—Beyond US (International Trade)
96. C  
Protect themselves. Businesses keep records to protect themselves from lawsuits, loss of property, inaccurate charges, etc. Shipping and receiving records help a business keep track of exactly what was ordered and at what price in the event there is a dispute with a vendor. These records provide the information that a business needs to return items that were not ordered and protect itself from paying for goods it did not receive. Suppliers maintain their own records about orders from businesses. The purpose of maintaining shipping and receiving records is not to monitor employees or organize departments.  
SOURCE: NF:001  
SOURCE: MN LAP 58—Business Records
97. A  
Legal. Legal records contain information relating to or concerned with the law. Businesses need to maintain all legal documents such as copyrights and trademarks. Copyrights are granted by the government, and trademarks are registered with the government; but they are not considered to be government records. Businesses have the expectation that all of their records will be private. Political refers to politics or matters relating to the government.  
SOURCE: NF:001  
SOURCE: MN LAP 58—Business Records
98. A  
Increases costs. Many businesses are spending large sums of money to repair the damage their operating techniques did to the environment. The trend towards protecting the environment is forcing many businesses to correct the problem and find ways of operating that will not be destructive. This trend is expensive for businesses that must now pay for past mistakes. Protecting the environment often involves reducing pollution. Promoting growth would be a positive effect. Many businesses increase prices in order to generate additional funds to use for developing ways of protecting the environment.  
SOURCE: NF:013  
SOURCE: Perreault, W.D., Jr., & McCarthy, E.J. (1997). *Essentials of marketing: A global-managerial approach* (7th ed.) [p. 481]. Boston: Irwin.
99. D  
Global competition. Businesses throughout the world are competing for the same customers as a result of technological advances. Improved communication and transportation methods have made goods and services available to previously untapped markets. Consequently, foreign businesses are selling to customers who formerly bought goods only from local companies. The foreign competitor has an impact on a local business and may force it to lower prices or offer additional services in order to survive. Physical environment, domestic transportation, and social behavior are not business trends.  
SOURCE: NF:013  
SOURCE: Zikmund, W.G., & d'Amico, M. (1999). *Marketing* (6th ed.) [pp. 64-65]. Cincinnati: South-Western College.

100. D

Migration. Migration is a population trend that indicates movement of people throughout the country as well as into and out of the country. Migration trends are important to businesses because businesses need to know where their customers are located. For example, many people are leaving colder climates and migrating to what is considered the Sunbelt. This movement affects businesses because the types of products they sell and the way they sell them will change. Also, the increased migration of ethnic groups into the country creates a need for new goods and services that meet the needs of a multicultural population. Lifestyle, consumption, and behavior are not population trends; however, these factors also affect how businesses market their goods and services.

SOURCE: NF:013

SOURCE: Zikmund, W.G., & d'Amico, M. (1999). *Marketing* (6th ed.) [pp. 68-70]. Cincinnati: South-Western College.