

Competency-Based
Competitive Events
Written Exam

Test Number 879
Booklet Number _____

Free Enterprise Economics

INSTRUCTIONS: This is a timed, comprehensive exam for the occupational area identified above. Do not open this booklet until instructed to do so by the testing monitor. You will have _____ minutes to complete all questions.

This comprehensive exam was developed by the MarkED Resource Center. Items have been randomly selected from the MarkED Resource Center's Test-Item Bank and represent a variety of instructional areas. Competencies for this exam are at the prerequisite, career-sustaining, and marketing specialist levels. A descriptive test key, including question sources and answer rationale, has been provided the state DECA advisor.

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1. Business A's failure to keep an agreement to supply Business B with a certain good or service is an example of a situation that is covered by _____ law.
 - A. property
 - B. antitrust
 - C. trade
 - D. contract
2. The use of patents and copyrights and the registering of trademarks and trade names are ways that federal laws protect a business's
 - A. operating agreements.
 - B. executive contracts.
 - C. product liability.
 - D. intellectual property.
3. An advantage to a business of filing Chapter 11 bankruptcy is that the process allows the business to
 - A. eliminate taxes.
 - B. liquidate.
 - C. reorganize.
 - D. sell assets.
4. Which of the following situations involves finding another source of a limited natural resource:
 - A. Paying a higher price for oil
 - B. Conserving the oil that we use
 - C. Searching for oil under the ocean
 - D. Replacing oil with natural gas
5. Which of the following is a characteristic of a product trade-name franchise:
 - A. Managerial assistance and training are usually not part of the arrangement.
 - B. The franchisee must operate under the trade name of the parent company.
 - C. Products and materials usually must be purchased from the franchisor's vendors.
 - D. A full range of assistance is provided in setting up and operating the business.
6. IBM, Texaco, and General Motors sell stock in their companies. They are examples of which of the following types of business ownership:
 - A. Sole proprietorship
 - B. Franchisee
 - C. Partnership
 - D. Corporation
7. Karla and Brad are college graduates who have received a small inheritance from their grandfather's estate. Karla and Brad have always wanted to own a business, and they are committed to devoting both time and money to making it a success. What type of business ownership would you recommend to Karla and Brad?
 - A. Limited partnership
 - B. Corporation
 - C. General partnership
 - D. Sole proprietorship
8. Which of the following is a major category of spending that the Bureau of Labor Statistics includes in the Consumer Price Index:
 - A. Exports
 - B. Housing
 - C. Farming
 - D. Imports
9. The government uses the Consumer Price Index to measure inflation because prices in the various categories of goods and services
 - A. decrease at the same time.
 - B. rise at different rates.
 - C. fluctuate by season.
 - D. change proportionately.
10. What is the Consumer Price Index for this year if the cost of the market basket is \$750 and the cost for that same market basket in the base year was \$675?
 - A. 112.7
 - B. 110.5
 - C. 109.3
 - D. 111.1
11. In calculating gross domestic product, wages paid to U.S. military personnel are part of
 - A. personal consumption expenditures.
 - B. gross private investment.
 - C. consumer spending.
 - D. government purchases.

12. The gross domestic product does not include a calculation of
- A. net exports.
 - B. worker productivity.
 - C. personal consumption.
 - D. government purchases.
13. One reason the United States provides assistance to underdeveloped nations is because it
- A. hopes they will become trading partners.
 - B. wants to become an important world power.
 - C. wants to learn about their technology.
 - D. is expected to do so.
14. Which of the following would provide you with information about the health of the U.S. economy:
- A. Medium of exchange
 - B. Economic order quantity
 - C. Gross domestic product
 - D. Population data
15. One way for the federal government to begin to solve the problem of the national debt is to eliminate
- A. deficit spending.
 - B. transfer payments.
 - C. state funding.
 - D. aid to education.
16. What is the amount of a country's national debt if it spends 6% more than its total revenue of \$55 million and borrows the money to make up the difference?
- A. \$6.5 million
 - B. \$2.4 million
 - C. \$5.6 million
 - D. \$3.3 million
17. What is the rate of inflation if the Consumer Price Index was 132.5 in 2002 and 137.3 in 2003?
- A. 4.2%
 - B. 3.3%
 - C. 3.6%
 - D. 4.7%
18. An example of a noneconomic want would be the desire for
- A. police protection.
 - B. a college education.
 - C. a friend.
 - D. concert tickets.
19. Is dust an economic good?
- A. No, it is not transferable.
 - B. No, it is not useful.
 - C. Yes, it is scarce.
 - D. Yes, it is a tangible object.
20. Your neighbor, Mr. Jones, grows several varieties of seasonal flowers in his garden. Because the flowers are beautiful and useful, they are considered to be
- A. specialty goods.
 - B. noneconomic wants.
 - C. economic goods.
 - D. economic services.
21. Jan's stock investments have paid very large dividends, and she now has enough money to buy a new car and take a vacation to Cancun. What type of want does Jan have?
- A. Competing
 - B. Economic
 - C. Unlimited
 - D. Noneconomic
22. Demographic change, lack of training, and lack of interest are reasons that _____ become limited.
- A. economic resources
 - B. capital goods
 - C. natural resources
 - D. human resources
23. Wendy's sells the right to operate its restaurants to individuals who meet the company's criteria. The arrangement between Wendy's and these individuals is an example of
- A. a partnership agreement.
 - B. articles of incorporation.
 - C. chartering.
 - D. franchising.
24. Which of the following is a natural resource that can be renewed through people's efforts:
- A. Trees
 - B. Crude oil
 - C. Water
 - D. Mineral deposits

25. A car wash would be considered a(n) _____ want.
A. noneconomic
B. unlimited
C. tangible
D. economic
26. Which of the following groups of words best describes wants:
A. Unlimited, unchanging, and compensating
B. Limited, changing, and compensating
C. Limited, unchanging, and competing
D. Unlimited, changing, and competing
27. The study of how to meet unlimited wants with limited resources is known as
A. prioritizing.
B. decision making.
C. economics.
D. scarcity.
28. Which of the following does consumption rely on to provide goods and services:
A. Deciders
B. Consumers
C. Owners
D. Producers
29. The term "utility" applied to products means that the products are
A. available when they are wanted.
B. altered to make them more useful.
C. capable of satisfying wants and needs.
D. available where they are wanted.
30. Determine the type of utility being created in the following situation: A business offers a credit plan to allow customers to purchase items they want.
A. Price
B. Place
C. Form
D. Possession
31. One of the factors that would help a business provide place utility to customers is its
A. low prices.
B. location.
C. helpful salespeople.
D. merchandise selection.
32. Manufacturers try to produce goods in response to
A. environmental factors.
B. product utility.
C. producer demand.
D. consumer demand.
33. An important economic concept that determines what will be produced and how much of it, is the law of
A. supply and demand.
B. producers and consumers.
C. market price.
D. equilibrium price.
34. Which of the following has a major effect on demand for products:
A. Production costs
B. Government regulations
C. Labor costs
D. Product utility
35. Increasing the price of a product will increase sales revenue only if demand for the product is
A. elastic.
B. inelastic.
C. flexible.
D. predictable.
36. Which of the following statements is true about the concept of price:
A. Buyers and sellers have the same objectives.
B. Excess supply causes a decrease in prices.
C. Rationing determines the rise and fall of prices.
D. Consumer goods usually are sold at the equilibrium price.
37. The equilibrium price is determined by
A. the cost of production.
B. a free enterprise system.
C. the standard of living.
D. a trial-and-error process.

38. Who gets the goods and services produced in a market economy?
- A. Whoever is willing and able to pay the price
 - B. Whoever has the least costs
 - C. Whoever is most efficient
 - D. Whoever obtains the most information and incentives
39. What is the price ratio between two products if one costs \$7.50 and the other costs \$15?
- A. 1 to 2
 - B. One-half
 - C. Double
 - D. 50%
40. To be socially responsible to their employees, many businesses offer their employees
- A. pay raises.
 - B. promotions.
 - C. financing.
 - D. training.
41. A trade industry is a type of business that
- A. is limited to wholesalers.
 - B. handles only raw goods.
 - C. produces new products.
 - D. buys and sells goods.
42. Businesses that carry a considerable assortment of goods but in only one or a few related product lines are _____ businesses.
- A. specialty
 - B. discount
 - C. service
 - D. limited-line
43. Service businesses that use goods in order to perform their services usually do not transfer _____ those goods to customers.
- A. ownership of
 - B. usefulness of
 - C. benefits from
 - D. information about
44. The government owns part of the means of production but there is private ownership of business, as well, in a _____ economic system.
- A. communist command
 - B. socialist command
 - C. capitalist
 - D. traditional
45. The basic economic questions such as what and how much a country will produce are answered by consumers in a _____ economic system.
- A. command
 - B. market
 - C. socialist
 - D. traditional
46. Which of the following describes productivity in a communist command economy:
- A. Is below government expectations
 - B. Equals that of a market economy
 - C. Reflects consumer demand
 - D. Puts out quantities of goods
47. The government is involved in settling business disagreements through the use of
- A. courts.
 - B. negotiation.
 - C. fines.
 - D. force.
48. A public utility company that is regulated by government is an example of a
- A. welfare program.
 - B. monetary policy.
 - C. watchdog agency.
 - D. natural monopoly.
49. Which of the following is an example of a tax that government collects from some businesses:
- A. Bond
 - B. Subsidy
 - C. Excise
 - D. Discount
50. What government policy directly affects business by setting the level of interest rates?
- A. Subsidy
 - B. Monetary
 - C. Profit
 - D. Fiscal

51. Economists consider the profit motive in a market economy as
- A. the primary goal of all economic systems.
 - B. a major incentive for work/production.
 - C. having little value to individuals.
 - D. having little or no relationship to our lives.
52. Who answers the basic economic questions in a private enterprise economic system?
- A. Influential citizens
 - B. Businesses and individuals
 - C. Government agencies
 - D. Entrepreneurs and producers
53. Although private enterprise is a productive economic system, a problem it has not been able to eliminate is
- A. competition.
 - B. poverty.
 - C. freedom.
 - D. profit.
54. One step in calculating a business's income is to determine the
- A. amount of overhead.
 - B. revenues received from sales.
 - C. number of credit customers.
 - D. rate of stockturn.
55. A business must sell a certain amount of goods or services in order to create _____ for the company.
- A. competition
 - B. debt
 - C. free trade
 - D. profit
56. The formula for calculating gross profit is
- A. net profit plus cost of merchandise.
 - B. income from sales minus cost of merchandise.
 - C. income from sales minus net profit.
 - D. income from sales minus operating expenses.
57. The type of business risk that means the possibility of loss or no loss is _____ risk.
- A. speculative
 - B. noninsurable
 - C. avoidable
 - D. pure
58. A Food and Drug Administration ruling that certain goods may be harmful to consumers' health is an example of an economic risk to businesses caused by
- A. increased competition.
 - B. business conditions.
 - C. product obsolescence.
 - D. government intervention.
59. Kent is going to start his own business. He is concerned that the merchandise he wants to carry will go out of style soon after opening his business. Which type of risk must he prepare for?
- A. Incompetence
 - B. Natural
 - C. Human
 - D. Economic
60. The owner of Bonnie's Birds and Bugs realizes that she cannot completely protect her building from the possibility of fire. What would be the best means of dealing with this risk?
- A. Avoid the risk
 - B. Prevent the risk
 - C. Transfer the risk
 - D. Retain the risk
61. Which of the following is most likely to be a result of competition:
- A. Alteration fees are greatly increased.
 - B. A business offers free gift wrapping.
 - C. Free delivery service is eliminated.
 - D. Customer identification rules are changed.
62. A local business that is having a Midnight Madness Sale has persuaded the manufacturer to offer to return a portion of the purchase price to consumers who purchase certain products. What forms of price competition is the business using?
- A. Sales and rebates
 - B. Rebates and discount coupons
 - C. Price matching and sales
 - D. Sales and discounts

63. Amazon.com and Barnes and Noble are examples of stores involved in what type of competition?
- A. Shared
 - B. Indirect
 - C. Direct
 - D. Monopolistic
64. A positive effect that productivity has on a business is helping it to
- A. gain a competitive advantage over other businesses.
 - B. increase the standard of living for consumers.
 - C. determine the health of the country's economy.
 - D. provide a wealth of goods and services to consumers.
65. A country's economy grows when its population grows at a slower rate than its
- A. standard of living.
 - B. quality of work life.
 - C. capital goods.
 - D. GDP per capita.
66. Melanie's supervisor made changes in some of Melanie's tasks so that she could finish them more easily. The technique the supervisor used is
- A. job orientation.
 - B. mass production.
 - C. flextime.
 - D. job simplification.
67. A store manager decides that employees' job duties will be broken down in the following manner—salespeople, cashiers, display workers, and stockpeople—each with specific duties. This is an example of specialization by
- A. task.
 - B. stage of production.
 - C. use of resources.
 - D. trade or profession.
68. Specialization by trade or profession, specialization by stage of production, and specialization by task are three main forms of specialization of
- A. capital goods.
 - B. human resources.
 - C. natural resources.
 - D. division of labor.
69. Companies may try to increase job satisfaction by offering employees
- A. lower pay for longer hours.
 - B. assembly-line work.
 - C. alternative work schedules.
 - D. single, repetitious tasks.
70. Which of the following work situations would best demonstrate a job with high depth and high scope:
- A. The manager of a restaurant selects the monthly menu and designs a newspaper advertisement.
 - B. The manager evaluates employee performance according to the owner's standard.
 - C. A manager is responsible for developing the monthly work schedule for employees.
 - D. The manager signs the employee time cards at the end of each work week.
71. A beginning worker in a craft or trade occupation is called a(n)
- A. journeyman.
 - B. master.
 - C. union member.
 - D. apprentice.
72. Union members who stop work in order to support the striking members of another union are participating in a _____ strike.
- A. wildcat
 - B. jurisdictional
 - C. limited
 - D. sympathetic
73. A labor union strategy in which union members refuse to buy a company's products is called a
- A. lockout.
 - B. closed shop.
 - C. strike.
 - D. boycott.
74. One of the most important issues that creates conflict in labor-management negotiations is
- A. dues.
 - B. dress code.
 - C. wages.
 - D. education.

75. Which of the following economic laws is a business following when it stops hiring after its current employees achieve a certain level of productivity:
- A. Marginal revenues
 - B. Negative returns
 - C. Diminishing returns
 - D. Variable products
76. The increase in total expenses as a business produces one more unit of a product is the
- A. average revenue.
 - B. marginal cost.
 - C. money supply.
 - D. economic loss.
77. When a business hires more laborers, outputs often increase in smaller increments and then eventually decrease, because _____ factors exist.
- A. ecological
 - B. fixed
 - C. ethical
 - D. transportation
78. During which phase of the business cycle are industries and businesses producing and selling goods at their maximum?
- A. Peak
 - B. Expansion
 - C. Trough
 - D. Contraction
79. Inflation occurs when demand exceeds supply, and prices
- A. contract.
 - B. rise.
 - C. decrease.
 - D. stabilize.
80. What must happen first in order to bring business out of the trough phase of a business cycle?
- A. Industry must produce more products.
 - B. Industry must save all excess cash.
 - C. Consumers must begin to buy more goods and services.
 - D. Consumers must invest more money in stocks and bonds.
81. What situation often exists when the economy is in a downturn, and many people are unemployed and cannot buy more than the basic necessities?
- A. Recession
 - B. Excess demand
 - C. Inflation
 - D. Trade deficit
82. Some business records need to be maintained in secure locations because they contain _____ information.
- A. published
 - B. historical
 - C. confidential
 - D. regulatory
83. Nations are dependent on each other for
- A. trade centers.
 - B. licenses and quotas.
 - C. imports and exports.
 - D. domestic trade.
84. Businesses that operate production facilities in foreign countries are regulated by the _____ of those countries.
- A. balance of trade
 - B. trade barriers
 - C. laws and attitudes
 - D. inspection standards
85. Businesspeople who lack cultural sensitivity may be unable to develop successful trade relations with foreign countries because they are unfamiliar with the
- A. materials and resources.
 - B. goods and services.
 - C. customs and traditions.
 - D. suppliers and competitors.
86. Which of the following is a factor that influences a person's role in business in many cultures:
- A. Career
 - B. Gender
 - C. Safety
 - D. Morale

87. Online chats, forums, and communities that enable businesses to learn about the wants and needs of their worldwide target market have created a new form of
- A. gender roles.
 - B. class systems.
 - C. social relationships.
 - D. cultural values.
88. Why do businesses use budgets to estimate income?
- A. To develop services
 - B. To increase shrinkage
 - C. To increase losses
 - D. To plan purchases
89. One of the most important ways that businesses use budgets is for
- A. renovation.
 - B. promotion.
 - C. research.
 - D. evaluation.
90. A business distributed 10,000 25-cents-off coupons and estimates that 75% of these coupons will be redeemed. Calculate the amount of money a business should include in its promotional budget to compensate for these coupons.
- A. \$1,875
 - B. \$1,800
 - C. \$2,100
 - D. \$2,500
91. What business would use marketing to sell durable goods?
- A. Department store
 - B. Food market
 - C. Restaurant
 - D. Cosmetics company
92. Marketing helps to create and stimulate demand for products through the marketing activity known as
- A. pricing.
 - B. distribution.
 - C. promotion.
 - D. research.
93. Which of the following is an example of a durable good that could be marketed:
- A. Interior design
 - B. Refrigerator
 - C. Pizza
 - D. Pencil
94. For both the customer and the seller, striking the right pricing balance makes the exchange
- A. disappointing.
 - B. painful.
 - C. manageable.
 - D. beneficial.
95. Goods and services that are bought from other countries to be sold in this country are called U.S.
- A. exports.
 - B. imports.
 - C. contraband.
 - D. trade deficits.
96. Businesses keep records about goods that are ordered, the negotiated purchase price, the condition of the items when received, and the delivery date in order to
- A. monitor employees.
 - B. satisfy suppliers.
 - C. protect themselves.
 - D. organize departments.
97. Copyrights and trademarks are examples of a business's _____ records.
- A. legal
 - B. government
 - C. private
 - D. political
98. What is one way that the trend towards protecting the environment has a negative effect on many businesses?
- A. Increases costs
 - B. Reduces pollution
 - C. Promotes growth
 - D. Decreases prices
99. Which of the following is a business trend that might affect a local company:
- A. Physical environment
 - B. Domestic transportation
 - C. Social behavior
 - D. Global competition

100. Which of the following is an ongoing population trend that affects how businesses market their goods and services:
- A. Lifestyle
 - B. Consumption
 - C. Behavior
 - D. Migration