

Understanding Business, 12e (Nickels)
Bonus Chapter D Managing Personal Finances

1) The value of education is often exaggerated when searching for a good job.

Answer: FALSE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

2) The U.S. government provides several types of financial incentives to encourage people to attend college.

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

3) The first step in getting control of your finances is to prepare a budget.

Answer: FALSE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

4) Your personal balance sheet will reflect the same fundamental accounting equation as the balance sheet for a business: $\text{assets} = \text{liabilities} + \text{owners' equity}$.

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

5) On your personal balance sheet, your assets should include anything of value that you own.

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

6) If your personal liabilities exceed your assets, you are on the road to financial security.

Answer: FALSE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

7) Your computer and car should both be listed on the asset side of your personal balance sheet.

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

8) Credit-card debt represents an asset on a consumer's balance sheet.

Answer: FALSE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

9) A major source of revenue on your personal income statement is your salary or wages from your job.

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

10) One step toward the goal of taking control of your finances is to keep track of all your expenses.

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

11) If you find yourself regularly running out of cash, your only real option is to focus your attention on finding ways to increase your income.

Answer: FALSE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

12) Once you have evaluated your current financial situation and know your sources of income and expenses, you have reached the point where you can establish a personal budget.

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

13) Managing the finances of a household is similar to managing the finances of a small business.

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

14) With respect to personal financial planning, the first thing to do with any extra money you have is to start a savings plan.

Answer: FALSE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

15) In order to get in the habit of saving, personal financial advisors suggest that you save first and wait to pay off any debts until you've accumulated at least \$10,000 in cash, savings accounts, CDs, and other liquid assets.

Answer: FALSE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

16) It is usually better to use any money left after paying monthly bills to pay off debts that carry high interest rates rather than putting that money into a savings account.

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

17) Financial planners regularly suggest that you borrow money to pay for large purchases.

Answer: FALSE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

18) The best way to save money is to pay yourself first.

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

19) Most financial experts will tell you to save about one month's earnings for contingency purposes.

Answer: FALSE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

20) Borrowing money for ordinary expenses is a necessary part of life.

Answer: FALSE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

21) Your big-screen HDTV would be listed as an asset on your personal balance sheet. However, the loan you took out to buy the TV would be listed as a personal liability.

Answer: TRUE

Explanation: Assets are things of value that you own. Liabilities represent your debts.

Difficulty: 2 Medium

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

22) Listing all of your personal assets is the first step in preparing your own income statement.

Answer: FALSE

Explanation: Assets are found on the balance sheet, not the income statement.

Difficulty: 2 Medium

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

23) Tracking business and personal spending by categories is an important technique to control expenditures.

Answer: TRUE

Explanation: Individuals and businesses often experience cash flow problems. One way to get control of your cash outflows is to keep track of every cent you spend. Developing certain categories can make this task easier and more informative.

Difficulty: 2 Medium

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

24) Your personal budget is the same thing as your personal income statement.

Answer: FALSE

Explanation: An income statement identifies *actual* revenue (everything you earned from your job, investments, etc.) and subtracts costs, and expenses to determine your actual net income over a given period. A budget is a financial *plan* that helps you think about how you can achieve future goals.

Difficulty: 2 Medium

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

25) Financial planners encourage individuals to borrow only to cover immediate expenses.

Answer: FALSE

Explanation: If you have to borrow money, only borrow to buy assets that have the potential to increase in value or generate income, such as a house.

Difficulty: 2 Medium

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

26) For individuals, budgets are usually more trouble than they are worth.

Answer: FALSE

Explanation: Creating a financial plan and tracking expenses can be tedious. However, you will gain the benefit of controlling your finances in order to reach your goals.

Difficulty: 2 Medium

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

27) A good way to save money is to spend all of your regular income, but have a strict rule to put any money from unexpected or unusual sources (such as overtime pay, bonuses, gifts, gambling payouts, or contest prizes) into a savings account.

Answer: FALSE

Explanation: The best way to save money is to pay yourself first. That is, take your paycheck and immediately take out money for savings. Unexpected or unusual income cannot be counted on, and would be too erratic and uncertain to ensure an adequate level of saving.

Difficulty: 2 Medium

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

28) You should never borrow to cover regular expenses, but it makes perfectly good sense to use credit to cover unexpected expenses such as car or home repairs.

Answer: FALSE

Explanation: Financial experts advise that it is better to budget for emergencies by establishing a contingency fund of highly liquid assets such as savings accounts or money market funds to cover most unexpected expenses. Except in highly unusual circumstances, borrowing should only be used to buy assets that will appreciate in value or generate income.

Difficulty: 2 Medium

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

29) Serena is attending her local community college with the goal of getting a good job someday. She knows that financial planning begins first with making money.

Answer: TRUE

Explanation: Benjamin Franklin said investment in education always pays the best interest. Today, a person with an undergraduate degree earns about twice as much as someone with only a high school diploma.

Difficulty: 3 Hard

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

30) Luke wants to get better control of his personal finances. He should begin by setting up a personal balance sheet and a personal income statement.

Answer: TRUE

Explanation: The first step towards taking control of your personal finances is to take inventory of your current situation. This is accomplished by preparing a personal balance sheet and a personal income statement.

Difficulty: 3 Hard

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

31) Even though they are in debt, most of today's college graduates are capital-rich.

Answer: FALSE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

32) Most people find it relatively easy to live frugally.

Answer: FALSE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

33) In order to accumulate enough wealth to get started toward achieving their goals, many people have to make significant sacrifices in their standard of living for several years.

Answer: TRUE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

34) Once they've accumulated enough money, buying a low-priced home is often a good investment for young adults.

Answer: TRUE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

35) Personal financial planners recommend renting a home, rather than incurring the cost of buying a home.

Answer: FALSE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

36) Before getting married, a couple should discuss and agree upon a financial strategy.

Answer: TRUE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

37) After marriage, one great financial strategy is to live on one income and to save the other.

Answer: TRUE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

38) If possible, it is almost always better to buy a single home rather than an attached home.

Answer: FALSE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

39) One drawback to buying a home compared to renting is that your monthly mortgage payments will increase, while rental payments are fixed.

Answer: FALSE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

40) When you buy a home, the monthly payments for the home may remain relatively fixed, but your payments for taxes and utilities are likely to increase.

Answer: TRUE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

41) Interest paid on a home loan is deductible from taxable income.

Answer: TRUE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

42) The federal government discourages home ownership through high tax rates.

Answer: FALSE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

43) The three keys that have the greatest influence on how the value of your home increases over time are: (1) size (square feet), (2) age, and (3) design features.

Answer: FALSE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

44) From an investment viewpoint, it is a good idea to buy a large home in an area of town where homes are less expensive.

Answer: FALSE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

45) Historically, the best place to invest has been in U.S. government savings bonds.

Answer: FALSE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

46) Most financial experts believe that the stock market is likely to grow more slowly in the future than it did in the last 50 years.

Answer: TRUE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

47) Though stock prices do sometimes go down, investing in the stock market has generally provided very attractive returns over the long run.

Answer: TRUE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

48) A contrarian would advise you to buy stock when stock prices are falling and most other people are selling.

Answer: TRUE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

49) Funds invested in savings accounts and certificates of deposit (CDs) have traditionally outperformed stocks as a means of generating long-term financial gains.

Answer: FALSE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

50) A person using a credit card to make a purchase may end up paying much more than if he or she had paid cash.

Answer: TRUE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

51) A good manager of personal finances, like a good businessperson, uses borrowed funds whenever possible.

Answer: FALSE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

52) If you use a credit card to make purchases, you should make a strong effort to pay off the balance in full each month.

Answer: TRUE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

53) Credit cards can be used to categorize and track your purchases.

Answer: TRUE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

54) Excessive debt is as much a problem of young consumers as it is of other age groups.

Answer: TRUE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

55) More than half of all debtors seeking help at the National Foundation for Credit were between the ages of 18 and 32.

Answer: TRUE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

56) One danger of a credit card is that consumers often buy items they wouldn't normally buy if they had to pay cash.

Answer: TRUE

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

57) Accumulating money through savings allows you to participate in the growth of a capitalist society.

Answer: TRUE

Explanation: The path to success in a capitalist system is to have capital (money) to invest.

Difficulty: 2 Medium

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

58) Buying an attached home and living in one side, while renting the other side, generally turns out to be more trouble than it is worth, since you have to satisfy not only your own needs, but also the needs of the renters.

Answer: FALSE

Explanation: For many young investors, buying two attached homes has proven to be a very attractive investment. The rental income from the attached unit will help cover the mortgage payment, the mortgage interest and real estate taxes are tax deductible, and the values of the attached homes usually appreciate over time.

Difficulty: 2 Medium

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

59) When young people decide to buy a house, the best approach is to buy a house in an inexpensive part of town so they can get a larger house for less money.

Answer: FALSE

Explanation: The key to success when investing in housing is location. It is usually better from a financial standpoint to buy a small home in a great part of town rather than a larger home in a not-so-great setting.

Difficulty: 2 Medium

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

60) House payments tend to rise at a faster rate than do rent payments on a similar sized house.

Answer: FALSE

Explanation: Other than taxes and utilities, house payments on a fixed-interest rate mortgage are relatively fixed. As your income rises, the house payments get easier to make, but renters often find that rents tend to go up as fast as or faster than income.

Difficulty: 2 Medium

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

61) The tax shelter offered by home ownership increases the overall cost of owning your home.

Answer: FALSE

Explanation: Interest on home loans and real estate taxes paid are both deductible from taxable income on an individual's federal income tax return. This, in effect, lowers the cost of home ownership.

Difficulty: 2 Medium

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

62) Investors who desire a very stable and predictable income from their investments (such as people who are nearing retirement) would be reluctant to invest heavily in the stock market.

Answer: TRUE

Explanation: The stock market has consistently proven to be a good place to invest money for long-term growth. However, as evidenced by the recent sharp decline in stock prices, the stock market definitely has its ups and downs. Also, though some analysts are bullish, many experts predict that the market will grow more slowly over the next few years than it has in the past, increasing the time it will take to recover from any market reversals. Younger investors who are patient will still have time to recover from short-term drops in the stock market. However, older investors do not have as long a time horizon and may want a more stable and predictable place to invest their money.

Difficulty: 2 Medium

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

63) During the first few years of a home mortgage, almost all the payments go for interest on the loan. This high interest is a reason it is better for young people to rent rather than buy.

Answer: FALSE

Explanation: The federal government allows homeowners to deduct interest on their mortgage from income, thus reducing their income tax liability. Thus, the fact that almost all of the mortgage payment in the first few years goes to interest means that the homeowner can deduct almost the entire cost of the mortgage payment from his or her taxable income.

Difficulty: 2 Medium

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

64) One of the keys to financial success is never to apply for a credit card.

Answer: FALSE

Explanation: Credit cards can be expensive if they are used extensively. However, credit cards can be a convenient and safe way to make certain types of purchases, and if users pay off the monthly balance before interest is charged, they can avoid the expense of finance charges. Many merchants demand credit cards as a form of identification. Credit cards also provide a recordkeeping system for purchases. Finally, credit cards offer some protection against theft: if cash is stolen, it is simply gone; if a credit card is lost or stolen, the holder can simply cancel the card, thus limiting the loss.

Difficulty: 2 Medium

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

65) The best strategy to follow in using credit cards is to pay only the minimum amount required each month.

Answer: FALSE

Explanation: Relatively high interest rates are charged on credit-card balances not paid within the grace period. Paying only the monthly minimum can result in very high finance charges.

Difficulty: 2 Medium

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

66) If you are in the 25 percent tax bracket and your home mortgage interest is \$1,000 per month, then your after-tax mortgage interest cost is \$750 per month.

Answer: TRUE

Explanation: The tax deduction allowed by the Internal Revenue Service is \$250 (25% times \$1,000 interest per month). This is then subtracted from the \$1,000 interest payment per month, resulting in an after-tax mortgage interest cost of \$750.

Difficulty: 3 Hard

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

67) Shulei graduated from college two years ago. She has already accumulated enough money in her savings account and money market to meet her basic needs, and now wants to begin investing a portion of each paycheck to earn a high rate of return over the long run. Shulei's best choice as a young woman would be to put money into a bank savings account regularly.

Answer: FALSE

Explanation: Though it has its ups and downs, over the long run the stock market has consistently outperformed other popular investment vehicles. In particular, stocks have generally offered a much higher long-run return than savings accounts.

Difficulty: 3 Hard

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

68) During a recent drop in the stock market, Damon took the opportunity to buy a wide variety of stocks even though many of his friends and relatives were selling. His investment strategy appears to be consistent with contrarian views.

Answer: TRUE

Explanation: The contrarian approach is to buy when everyone else is selling and sell when others are buying. Most people tend to sell when the stock market suffers a big drop, but contrarians look at such a drop as an opportunity to buy at a low price. This approach takes courage, but it can be a way to great financial success. After all, the way to make money is to buy low and sell high.

Difficulty: 3 Hard

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

69) Term life insurance is a combination insurance plan and savings plan.

Answer: FALSE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

70) Term life insurance offers pure insurance with no savings feature.

Answer: TRUE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

71) The younger you are when you buy term life insurance, the lower the premiums tend to be.

Answer: TRUE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

72) Multiyear level-premium insurance is a form of term insurance with fixed premiums for the life of the policy.

Answer: TRUE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

73) Whole life insurance premiums provide the insured with both pure insurance and a savings plan.

Answer: TRUE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

74) Unlike whole life policies, a universal life insurance policy typically invests part of the premium in very aggressive, high-risk assets.

Answer: FALSE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

75) The death benefits of a variable life insurance policy vary depending upon the performance of the investment.

Answer: TRUE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

76) An annuity is a contract to make regular payments to a person for life or for a fixed period.

Answer: TRUE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

77) Fixed annuities have become much more popular than variable annuities.

Answer: FALSE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

78) Variable annuities offer investment choices identical to mutual funds.

Answer: TRUE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

79) People who have health insurance seldom need disability insurance.

Answer: FALSE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

80) If you are relatively healthy, there is no real reason to buy disability insurance.

Answer: FALSE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

81) Everything else constant, the higher the deductible on your car insurance policy, the higher the premium for your car insurance.

Answer: FALSE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

82) Many employers offer health insurance coverage for their full-time employees.

Answer: TRUE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

83) Disability insurance provides a relatively low-cost way of protecting against lost income due to an accident or illness that prevents you from working for an extended period of time.

Answer: TRUE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

84) Due to the high cost of the insurance premiums, many people have found that it makes financial sense to carry medical insurance only if their employer provides it.

Answer: FALSE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

85) The chances of becoming disabled at an early age are much higher than your chances of dying from an accident.

Answer: TRUE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

86) Guaranteed replacement cost insurance coverage provides the insured with the depreciated cost of assets.

Answer: FALSE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

87) Most homeowner's insurance policies do not cover certain types of expensive items unless you purchase a rider for the additional coverage.

Answer: TRUE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

88) An umbrella policy is an inexpensive policy that provides financial protection only in the event of clearly defined major catastrophes such as hurricanes or earthquakes—events which are referred to in the insurance industry as "rainy days."

Answer: FALSE

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

89) One strategy used to lower car insurance premiums is to choose a policy with a large deductible.

Answer: TRUE

Explanation: By being willing to cover relatively small losses yourself, you reduce the risk of payment for the insurance company. This will result in a lower premium.

Difficulty: 2 Medium

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

90) Mike is young and newly married. He and his wife plan to have children in the near future, and Mike wants to get a significant amount of life insurance coverage at as low a cost as possible. He would be well advised to purchase a term insurance policy.

Answer: TRUE

Explanation: Term insurance would most likely be the preferred approach in this situation. If Mike's primary concern is insurance protection for his family, straight term insurance would provide the greatest amount of coverage per dollar spent.

Difficulty: 3 Hard

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

91) Casey wants to obtain life insurance at the lowest possible cost, but is leery of term insurance because she has heard the premiums tend to go up every few years. One way for her to avoid this concern would be to purchase multiyear level-premium insurance.

Answer: TRUE

Explanation: Generally, term insurance is less expensive than whole life or universal life because it provides pure protection. A new form of term insurance, called multiyear level-premium insurance, guarantees the same premium for the life of the policy. Using this approach, many term insurance policies today offer fixed premiums for 20 years or more.

Difficulty: 3 Hard

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

92) Cynthia is trying to find a way to reduce her car insurance premium. She would be well advised to decrease her insurance policy's deductible.

Answer: FALSE

Explanation: Other things held constant, the higher the deductible, the lower the insurance premium.

Difficulty: 3 Hard

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

93) Joe wants life insurance to provide benefits for his family if he were to die. He also wants part of his premium to go into a savings plan that he will need if he lives to retirement age. His best strategy to achieve insurance and savings with one premium is term insurance.

Answer: FALSE

Explanation: Term insurance is strictly insurance protection. Whole life insurance and variable life insurance policies would offer Pete the opportunity to achieve his goals.

Difficulty: 3 Hard

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

94) As a recent college graduate just starting out on his own, Tyrone needs health, disability, home, and auto insurance. He may be able to save money by obtaining an umbrella policy.

Answer: TRUE

Explanation: An umbrella policy allows people to meet all of their insurance needs for things like health, home, and auto through one carrier. Most firms offer discounts to clients who purchase umbrella policies.

Difficulty: 3 Hard

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

95) About half of the U.S. population accumulates enough money to afford a comfortable retirement.

Answer: FALSE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

96) About 35% of U.S. households do not have a retirement account.

Answer: FALSE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

97) Social Security is the term used to describe the Old Age, Survivors, and Disability Insurance Program.

Answer: TRUE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

98) One problem with the Social Security system is that the number of people retiring and living longer is declining dramatically.

Answer: FALSE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

99) It is likely that young adults today will benefit from the recent trend in the Social Security system to increase benefits and expand the cost-of-living adjustments.

Answer: FALSE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

100) The number of workers paying into Social Security per retired individual receiving benefits is decreasing.

Answer: TRUE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

101) Regardless of potential changes, you can count on Social Security to provide you with a comfortable retirement.

Answer: FALSE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

102) An individual retirement account (IRA) is a tax-deferred investment plan that encourages workers to save for retirement.

Answer: TRUE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

103) A traditional IRA affords workers who qualify the opportunity to deduct from their reported income the money they put into a qualified retirement account.

Answer: TRUE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

104) Both the Roth and traditional IRA allow individuals to put as much money as they want into their retirement account.

Answer: FALSE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

105) A Roth IRA allows workers who qualify to get an up-front deduction for any money they invest in the plan.

Answer: FALSE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

106) An advantage of both traditional and Roth IRAs is that both the income invested and the earnings from these investments are never taxed.

Answer: FALSE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

107) The benefit of opening an IRA while you're young is the compounding of the money invested tax-free over your working lifetime.

Answer: TRUE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

108) Funds deposited into an IRA cannot be withdrawn until you retire.

Answer: FALSE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

109) In order to qualify as a tax shelter, IRA saving plans must be invested in mutual funds.

Answer: FALSE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

110) Withdrawals from an IRA prior to age 59½ generally are subject to taxes and a penalty.

Answer: TRUE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

111) Earnings from traditional IRA investments are taxable at the time they are earned.

Answer: FALSE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

112) A simple IRA, which allows workers to contribute larger amounts than a regular IRA, is available to employees who work for firms with fewer than 100 employees.

Answer: TRUE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

113) MyRA is a Roth IRA-type retirement savings plan for low and middle-income individuals.

Answer: TRUE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

114) The money a worker invests in a 401(k) retirement account reduces that worker's present taxable income.

Answer: TRUE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

115) Employers often match part of the contribution of their employees into a 401(k) retirement plan.

Answer: TRUE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

116) Only large corporations with at least 500 employees can offer their employees a simple 401(k) retirement plan that allows for greater contribution maximums.

Answer: FALSE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

117) Many small-business owners invest in 401(k) plans for their retirement.

Answer: FALSE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

118) The best way to invest in a 401(k) plan is to use all of the money to buy stock in the company where you work.

Answer: FALSE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

119) Keogh plans are intended to help small business owners save for retirement.

Answer: TRUE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

120) Keogh plans are most useful for stockholders of major corporations who earn most of their income from dividends rather than wages or salaries.

Answer: FALSE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

121) Employees of small businesses can contribute to a Keogh plan.

Answer: FALSE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

122) IRAs, 401(k), and Keogh plans all include incentives to encourage saving for retirement.

Answer: TRUE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

123) Earnings of Keogh plans are not taxed until the funds are withdrawn from the retirement account.

Answer: TRUE

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

124) The best financial planners are actually insurance salespeople.

Answer: FALSE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

125) If you have minor children, the first step in estate planning is to select their guardian.

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

126) The person who is named in your will to assemble the assets in your estate, handle taxes, and distribute the assets is called your proxy.

Answer: FALSE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

127) The reason you would prepare a durable power of attorney is to make sure that someone was named to take over your finances if you become incapacitated.

Answer: TRUE

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

128) Recent demographic trends suggest that the financial condition of the Social Security program soon will begin to improve.

Answer: FALSE

Explanation: The number of people retiring is increasing dramatically, and on average retirees are living longer. At the same time, the number of people paying into the Social Security system is declining. This will put a great strain on the system in upcoming years and is likely to result in some or all of the following: cuts in benefits, later retirement ages, reduced cost of living adjustments, and higher Social Security taxes.

Difficulty: 2 Medium

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

129) An individual retirement account (IRA) is a tax-deferred investment plan designed to encourage workers to save for retirement.

Answer: TRUE

Explanation: Within certain income limits, both the initial investment and the earnings of a traditional IRA are tax-deferred until the funds are removed from the retirement plan.

Difficulty: 2 Medium

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

130) IRA funds are not available for withdrawal until you are 59½ years old.

Answer: FALSE

Explanation: The funds can be withdrawn prior to the investor turning 59½ years old; however a 10 percent penalty for early withdrawal must be paid as well as the taxes due on the IRA's earnings. The government recently relaxed these restrictions even further, allowing people with IRAs to withdraw a certain amount to help pay for education or a first home.

Difficulty: 2 Medium

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

131) A person in the 25 percent tax bracket who invests \$1,000 in a traditional IRA immediately postpones \$250 in taxes.

Answer: TRUE

Explanation: Funds invested in a traditional IRA are sheltered from current taxes. Earnings of \$1,000 would have been taxed at the 25 percent rate, $\$1,000 \times 25\% = \250 . If the \$1,000 is invested in a traditional IRA, the tax liability is deferred until the funds are withdrawn at retirement.

Difficulty: 3 Hard

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

132) Bree expects to be in a much higher tax bracket when she retires than she is now, so she wants to invest in a retirement account in which her withdrawals will be tax-free. One way for her to achieve this is through a traditional IRA.

Answer: FALSE

Explanation: The earnings of a traditional IRA are tax-deferred, not tax-free. With a traditional IRA, earnings are taxed as income at the time they are withdrawn. A better choice for Bree would be a Roth IRA. With a Roth IRA, Bree would not receive a deduction in the period when she contributed to the IRA, but would be able to withdraw the earnings tax-free after she retires (assuming that she is at least 59½).

Difficulty: 3 Hard

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

133) Ricky wants to decrease his current taxable income and save for retirement. He should consider a traditional IRA.

Answer: TRUE

Explanation: A traditional IRA gives qualified individuals an incentive to save for retirement by allowing them to deduct from their reported income the money they put into an account.

Difficulty: 3 Hard

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

134) Elizabeth has just opened a 401(k) retirement plan. The money she invests in this plan will reduce her present taxable income.

Answer: TRUE

Explanation: Both the money invested and the earnings from the plan are tax-deferred until the funds are withdrawn.

Difficulty: 3 Hard

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

135) Carlton owns a small sports memorabilia shop. He can participate in a Keogh plan to save for his retirement.

Answer: TRUE

Explanation: Keogh plans are like an IRA for entrepreneurs. Self-employed individuals invest in a Keogh plan because they do not have the benefit of a corporate retirement system.

Difficulty: 3 Hard

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

136) Ryan is in need of advice regarding investments, taxes, and insurance for himself and his family. He would be well advised to seek the advice of an insurance salesperson.

Answer: FALSE

Explanation: Personal financial advisors can help you to develop a comprehensive plan that covers investments, taxes, insurance, and other financial matters. Not all insurance salespeople will have the expertise to develop a comprehensive plan. Moreover, such salespeople often are more interested in selling the products offered by their companies than in providing unbiased advice about a variety of alternatives.

Difficulty: 3 Hard

Topic: Financial Planning

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

137) Arlene has just made out a will. The will names her brother Aaron as the executor. This means that Aaron will have the authority to take over Arlene's finances if she becomes incapacitated.

Answer: FALSE

Explanation: An executor named in a will normally is responsible only for situations in which the owner of the estate dies, not cases where the person is incapacitated. Thus, the executor named in a will is not normally given the authority to take over an incapacitated person's finances. A durable power of attorney is used to name someone to handle a person's finances if he or she becomes incapacitated.

Difficulty: 3 Hard

Topic: Estate Planning

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

138) Financial planning begins with

A) spending money wisely.

B) earning money.

C) insuring your assets against an unexpected loss.

D) saving money.

Answer: B

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

139) Throughout history an investment in _____ has yielded an excellent return, regardless of the state of the economy or political changes.

- A) antiques
- B) a good education
- C) government bonds
- D) savings accounts

Answer: B

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

140) The only way to accumulate enough money to do all of the things you want to do late in life is to

- A) take an inventory of your financial assets.
- B) make more than you spend.
- C) avoid bankruptcy.
- D) satisfy the demands of your creditors.

Answer: B

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

141) Which of the following would be included as an asset in the preparation of a personal balance sheet?

- A) credit-card debt
- B) home mortgage
- C) your salary from a part-time job
- D) your computer

Answer: D

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 142) In preparing an income statement for yourself, the wages from your job would be shown as
- A) your revenue.
 - B) an expense.
 - C) an asset.
 - D) your owner's equity.

Answer: A

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 143) When you prepare your personal balance sheet, remember that your _____ is equal to your total assets minus any liabilities you have.
- A) net income
 - B) net worth
 - C) tax base
 - D) cash equivalent value

Answer: B

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 144) The first step you would take to get control of your personal finances is to
- A) keep track of all your expenses.
 - B) prepare a budget.
 - C) take inventory of your assets.
 - D) start a savings program.

Answer: C

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 145) Personal financial planners often encourage their clients to write down every single penny they spend each day. The main purpose of this is to
- A) focus attention on the spending levels for each item.
 - B) eliminate the need for accountants.
 - C) do a better job of tax planning.
 - D) accumulate data needed to prepare a personal balance sheet.

Answer: A

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 146) A(n) _____ is a personal financial plan that allows you to take control of future spending.
- A) expense tracker
 - B) revenue sheet
 - C) budget
 - D) debt manager

Answer: C

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 147) Budgets are
- A) useful for businesses, but too restrictive to be used by individuals or households.
 - B) a financial plan of projected revenues and expenses.
 - C) just another name for cash flow statements.
 - D) only helpful to people who earn more than \$50,000 per year.

Answer: B

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 148) Preparing and living with a personal budget is
- A) not necessary if you have sufficient income.
 - B) similar to activities needed to handle the finances of a small business.
 - C) often more trouble than the benefits justify.
 - D) an excellent technique to prepare for a career in accounting.

Answer: B

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 149) A financial planner would encourage you to borrow money
- A) only to buy assets that are likely to generate income or increase in value.
 - B) to pay your day-to-day expenses and then to invest your income.
 - C) only when facing bankruptcy.
 - D) in order to reduce your debt level.

Answer: A

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 150) Many financial experts advise that you set up a contingency fund equal to about _____ of your earnings and keep these funds in highly liquid accounts.
- A) two months
 - B) six months
 - C) one year
 - D) three years

Answer: B

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

151) Once you have set up a budget and handled your ordinary expenses, the first thing to do with any extra money you have is to

- A) start a savings plan.
- B) pay off your debts.
- C) start your own business.
- D) spend it on the things you would like but that aren't included in your budget.

Answer: B

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

152) Which of the following accounting statements would assist an individual in taking inventory of personal assets and liabilities?

- A) income statement
- B) balance sheet
- C) budget
- D) statement of cash flows

Answer: B

Explanation: The balance sheet will reflect the accounting equation: assets = liabilities plus owners' equity (or net worth).

Difficulty: 2 Medium

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

153) Young married couples that find themselves running out of money at the end of the month might be well advised to

- A) keep track of all of their expenses.
- B) keep track of cash spent on major purchases.
- C) prepare a balance sheet.
- D) apply for additional credit cards.

Answer: A

Explanation: The only way to get control of your cash outflow is to keep track of every cent you spend. This discipline will highlight the various categories of your spending so that you can see where you are spending too much, and will help you control the vague "miscellaneous" expenditures.

Difficulty: 2 Medium

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

154) The best way to save money is to

- A) pay yourself first by taking out money for savings from each paycheck before deciding what to do with the remaining money.
- B) start your own business designed to create business tax deductions.
- C) prepare a balance sheet.
- D) pay yourself last.

Answer: A

Explanation: The best way to save money is to pay yourself first. When you receive your paycheck, take out money for savings, and then plan what to do with the rest.

Difficulty: 2 Medium

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

155) Alvin's credit card charges him 18% interest on his unpaid balance. His bank is offering him 1% interest on a savings account. The first thing Alvin should do with any extra money he may have is to

- A) invest in the stock market.
- B) open a savings account at the bank.
- C) pre-pay for necessities, like rent and utilities.
- D) pay off the credit card balance.

Answer: D

Explanation: The risk-free return generated by paying off the credit card balance is greater than the other options. While the stock market has the potential of earning more than the credit card debt, it is important to adjust the potential earnings for the risk inherent in stock market investing.

Difficulty: 3 Hard

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

156) Recent college graduates, Jason and Elizabeth, are newlyweds. Although they acquired a significant amount of debt during college, both recently got good-paying jobs and appear to have promising careers. Given their situation, down the road Jason and Elizabeth

- A) are almost certain to be able to retire comfortably when the time comes, given the high level of income they are likely to earn.
- B) could be able to retire comfortably, but doing so will take planning and discipline on their part.
- C) have little chance of enjoying a comfortable retirement because the college debts will take years to repay and become a major burden.
- D) will probably find that Social Security will provide an adequate retirement, but that they may need to supplement this with a modest pension if they really want to enjoy the fine life in their golden years.

Answer: B

Explanation: It's true that the first step in financial planning involves making money, and Jason and Elizabeth appear in good shape to earn attractive incomes. However, making money is only the first step; it is also necessary to spend wisely and to save. This takes planning and discipline.

Difficulty: 3 Hard

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

157) Brad and Tori are experiencing marriage difficulties regarding money. One technique to help them control and forecast their future financial situation, as well as allow them to achieve their financial goals, would be to prepare a(n)

- A) income statement.
- B) balance sheet.
- C) budget.
- D) asset inventory.

Answer: C

Explanation: A budget will allow the couple to plan for their financial goals (perhaps retirement and college for kids). The budgeting process involves keeping records of expenses that will assist the couple in controlling cash outflows.

Difficulty: 3 Hard

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

158) Dani has prepared her personal balance sheet and found that her total assets are \$54,000 and her total liabilities (largely college loans) are \$48,000. What does this show for Dani?

- A) Her net income is only \$6,000.
- B) Her net worth is \$6,000.
- C) Her cash flow will not be sufficient to repay her college loans.
- D) Her balance sheet is out of balance.

Answer: B

Explanation: A balance sheet is based on the fundamental accounting equation: $\text{Assets} = \text{Liabilities} + \text{Owners' equity (or net worth)}$. Thus, to find her net worth, Lucy can subtract her debts from her assets.

Difficulty: 3 Hard

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

159) Denny plans to start his business program this semester at a local university. Denny will likely find that

- A) his time would be better spent pursuing a career after high school.
- B) he will have more fun and excitement than his friends that don't attend college.
- C) his choice of a business major will virtually guarantee him a comfortable retirement income if he sticks with it.
- D) his investment in his education will be important in his future.

Answer: D

Explanation: Throughout history, an investment in business education has paid off. One way to start the path to becoming a millionaire is to finish college.

Difficulty: 3 Hard

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

160) The path to success in a capitalist system is to

- A) spend more on capital goods than you do on consumer goods.
- B) have access to debt markets.
- C) have money to invest.
- D) work hard with the goal of moving up in the management of your employer.

Answer: C

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 161) In order to accumulate capital, young adults are likely to have to
- A) accept a lifestyle that sacrifices some amenities.
 - B) live beyond their means.
 - C) rely on credit cards for basic purchases in order to conserve on cash.
 - D) borrow funds from a bank.

Answer: A

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 162) The key to generating enough capital for investment for many individuals is to
- A) obtain as many credit cards as possible in order to maximize spending power.
 - B) live frugally.
 - C) borrow money from friends and family.
 - D) buy only high-quality consumer goods.

Answer: B

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 163) Investing in a home is generally considered a
- A) poor choice when compared to renting.
 - B) wise investment.
 - C) luxury that should be postponed as long as possible.
 - D) good decision, but only if you've saved enough to pay in full with cash.

Answer: B

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 164) Which of the following is a benefit of buying a home rather than renting?
- A) Real estate taxes and utilities will be fixed.
 - B) It reduces the need to carry insurance.
 - C) Paying for a home is a good way to force yourself to save.
 - D) The entire purchase price of the home can be deducted from taxable income, but this deduction must be spread over at least 15 years.

Answer: C

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 165) Buying _____ is often an attractive strategy for young couples, since they can live in one unit and rent the other half to supplement their income, while taking tax deductions on interest and real estate taxes.
- A) a semiprivate housing unit
 - B) a ranch apartment
 - C) a bplex
 - D) attached homes

Answer: D

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

166) The goal of accumulating capital is to allow an individual to

- A) buy the things that satisfy present wants and needs.
- B) have funds available to invest.
- C) buy now, pay later.
- D) establish a good credit rating.

Answer: B

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

167) Real estate professionals agree that the key to getting the optimum return on the purchase of a home is

- A) construction quality.
- B) location.
- C) tax advantages.
- D) design features.

Answer: B

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

168) About _____ of all U.S. households own stock in corporations.

- A) 16 percent
- B) 30 percent
- C) half
- D) three-fourths

Answer: C

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

169) According to contrarians, the big decline in the stock market during the Great Recession was

- A) a great opportunity to invest in stocks.
- B) proof that the stock market was not as sound an investment as most people thought.
- C) a sign that more government regulation was needed to prevent big losses.
- D) proof that the future of capitalism should rely more on small, unincorporated businesses rather than big corporations.

Answer: A

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

170) Real estate taxes and mortgage interest payments are both

- A) expenses of home ownership on which the government levies a tax.
- B) tax deductible for renters.
- C) tax deductible for homeowners.
- D) taxable income for renters and homeowners.

Answer: C

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

171) The total cost of purchasing a sound system or HDTV with cash is _____ the cost when using credit cards to finance the same assets.

- A) the same as
- B) greater than
- C) less than
- D) less stable than

Answer: C

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

172) A benefit of using credit cards is that they

- A) have lower interest rates than other forms of credit.
- B) provide a record that makes it possible to keep track of purchases easily.
- C) help consumers be more disciplined when it comes to spending decisions.
- D) allow the consumer to spread out payments and reduce overall costs.

Answer: B

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

173) When purchasing with a credit card, it's important to remember that _____ if you do not pay the balance in full within a stated time period.

- A) the credit limit is reduced
- B) no returns are allowed
- C) interest is charged on the remaining balance
- D) discounts are available

Answer: C

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 174) One disadvantage of having credit cards for personal use is that
- A) they offer no protection if they are stolen.
 - B) they are less convenient than other forms of credit.
 - C) many companies have a policy that prevents employees from having both personal credit cards and credit cards for business use.
 - D) they can make it easy to pile up a large amount of debt quickly.

Answer: D

Difficulty: 1 Easy

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 175) Which of the following is a benefit unique to buying two attached homes, as opposed to the purchase of a single-family home?
- A) Real estate taxes are tax deductible.
 - B) The rent income will help make the mortgage payment.
 - C) Mortgage interest payments are tax deductible.
 - D) The value of the home may increase over time.

Answer: B

Explanation: Only attached homes allow for rental income to help cover the payment on the mortgage.

Difficulty: 2 Medium

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

176) The factor likely to have the greatest impact on how fast the value of a home appreciates over time is the

- A) interest rate on the mortgage.
- B) style and design features built into the home.
- C) location of the home.
- D) size of the home.

Answer: C

Explanation: The three keys to making the optimum return on the investment in a home are location, location, and location. A small home in a good location is usually a better investment than a large home in a less desirable area.

Difficulty: 2 Medium

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

177) Mortgage interest payments and property taxes are

- A) tax deductible for homeowners.
- B) expenses that make home ownership less attractive than renting.
- C) both likely to increase each year at a faster rate than your income.
- D) both likely to decline the longer you own the home.

Answer: A

Explanation: IRS rules allow homeowners to deduct mortgage interest and property taxes from taxable income. This makes owning a home more financially attractive than it might first appear. Mortgage interest will decline over the years as more of the loan is repaid. However, property taxes may increase.

Difficulty: 2 Medium

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 178) The greatest return over a period of several years is likely to be earned by investing in a
- A) small home in a great location.
 - B) savings account in a bank.
 - C) large home in a deteriorating neighborhood.
 - D) moderate size home in a rural setting.

Answer: A

Explanation: Location is the key factor in real estate value. It's better, from a financial viewpoint, to buy a smaller home in the part of town near the services that people desire. Historically, bank savings accounts have not performed as well as many other investments such as real estate.

Difficulty: 2 Medium

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 179) For a young person, one of the worst places to invest money for the long-term is:
- A) a duplex.
 - B) a bank savings account.
 - C) a home.
 - D) the stock market.

Answer: B

Explanation: Bank savings accounts, while safe, offer a very low return relative to other investments—a fact many young people do not seem to know. Though riskier, real estate and the stock market are usually better choices for long-term investments than a bank account. The stock market does tend to go up and down, but over a longer period of time, it has proven to be one of the best investments.

Difficulty: 2 Medium

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 180) From a financial viewpoint, it is best to buy a
- A) large home in a good neighborhood.
 - B) very large home in a neighborhood where homes are relatively inexpensive.
 - C) medium-sized home in a neighborhood where homes are the least expensive.
 - D) small home in an excellent neighborhood.

Answer: D

Explanation: A home in an excellent location usually is the best financial investment. It is better to buy a smaller home in a great location.

Difficulty: 2 Medium

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 181) Which of the following is true of credit cards?
- A) They are a cheaper way to finance your education.
 - B) They are an efficient way to keep track of purchases.
 - C) They are an effective way of controlling the amount of debt the consumer incurs.
 - D) They are less convenient than carrying cash or writing a check.

Answer: B

Explanation: The danger of a credit card is the flip side of its convenience. Too often, consumers buy goods and services that they would not normally buy if they had to pay cash or write a check on funds in the bank. Consumers often pile up debts they are unable to pay. One advantage of credit cards is that they are an efficient way to keep track of purchases.

Difficulty: 2 Medium

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

182) Which of the following is an advantage of home ownership?

- A) Home ownership is a good way to control the costs of utilities, maintenance, and insurance.
- B) Mortgage interest and real estate taxes are tax deductible.
- C) Money invested in a house is a highly liquid investment.
- D) Home ownership provides a guaranteed rate of return that is more stable than the return earned by investing in the stock market.

Answer: B

Explanation: IRS rules allow homeowners to deduct mortgage interest payments and property taxes from their taxable income, thus lowering their income tax payments.

Difficulty: 2 Medium

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

183) Which of the following is the *best* advice about the use of credit cards?

- A) Except for very small purchases, credit cards should always be used instead of cash.
- B) The best approach to credit cards is never even to apply for one.
- C) Credit cards are an important part of a personal financial system, but pay the balance in full during the period when no interest is charged.
- D) Credit cards are most useful when making large purchases (over \$500), because they allow you to spread out the payments to fit into your budget.

Answer: C

Explanation: Credit cards are an important element in a personal financial system. For example, they can be used as a form of identification, can help track purchases, and can offer some protection against loss in the event of theft or robbery. However, credit cards also have disadvantages: they generally carry relatively high interest rates and can encourage people to spend beyond their means. Thus, people should make sure they pay off the balance each month to avoid these problems.

Difficulty: 2 Medium

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

184) Dmitry emigrated to the United States from a formerly communist country. He is looking to you for advice on how to succeed in a capitalist system. He would be well advised to

- A) find a job and live frugally in order to save money to invest.
- B) rely heavily on government assistance programs to maintain a relatively comfortable life style.
- C) get a credit card, even if it has a very low credit limit, and use it to establish a good credit rating.
- D) follow the buy now, pay later rule of personal finance.

Answer: A

Explanation: The path to success in a capitalist system is to have capital (money) to invest. For most people, this requires gaining employment (making money), then saving it by living frugally.

Difficulty: 3 Hard

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

185) Joe and Megan are newly married college graduates. Both have jobs with bright futures. One strategy that they could use to accumulate capital for investment purposes, would be to

- A) borrow heavily to buy a house.
- B) use their credit cards to acquire assets while prices are relatively low.
- C) live on just one of their incomes and save the other.
- D) quit their jobs and return to school to earn graduate degrees.

Answer: C

Explanation: Living on one income is difficult for most couples to do. However, an early life style of sacrifice can provide a pool of savings for investment purposes. Ultimately, buying a home is likely to be a good investment, but it makes sense to accumulate the capital for a sizable down payment before doing so.

Difficulty: 3 Hard

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

186) During her sophomore year in college Carrie received an email from First Bank telling her she was eligible for a credit card along with a free gift. Carrie was excited until she remembered that any cash she has usually "burns a hole" in her pocket, and she spends it quickly. Carrie would likely not be successful with a credit card because

- A) she has difficulty in getting access to credit.
- B) she would use it to make impulse purchases that she could not afford.
- C) she would not spend up to the limit immediately.
- D) her dad would not agree to cosign for her.

Answer: B

Explanation: The danger of a credit card is the flip side of its convenience. Too often consumers buy goods and services that they wouldn't normally buy if they had to pay cash or write a check on funds in the bank. Carrie is not the type who can stick to a financial plan so it may be better for her not to have a credit card at all.

Difficulty: 3 Hard

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

187) Given a 25% tax bracket, the after-tax cost of a house mortgage interest payment of \$1,000 would be:

- A) \$ 250.
- B) \$ 750.
- C) \$1,000.
- D) \$1,250.

Answer: B

Explanation: Interest on a home mortgage is tax deductible. The \$1,000 interest is sheltered from the tax rate of 25 %. This saves the taxpayer \$250, yielding an after-tax cost of \$750.

Difficulty: 3 Hard

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

188) Dylan and Wyatt are good friends who have similar jobs that pay them well. Both have established budgets that allow them to invest several hundred dollars each month. Dylan has a strategy of putting most of his money in bank CDs and a savings account. Wyatt has opted for a strategy of investing in the stock market. According to the evidence of the past 50 years, it is likely that over the long run

- A) Dylan and Wyatt will experience very similar rates of return.
- B) Dylan will experience a significantly higher return than Wyatt.
- C) Wyatt will experience a significantly higher return on his investments than Dylan, but will also experience more ups and downs over the years.
- D) Dylan will experience a slightly higher return, but Wyatt's return will be more stable and predictable.

Answer: C

Explanation: This question asks the student to consider the evidence of the past 50 years. Although it has had its ups and downs, during this period the stock market has proven to provide a more attractive long-run return than other types of investments.

Difficulty: 3 Hard

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

189) Nancy has been following the stock market, and has noticed that it has been declining for the last several weeks. While many of her friends and family have sold stock, Nancy looks at this situation as a good opportunity to buy. Nancy's views are consistent with the _____ approach to investing in the stock market.

- A) contrarian
- B) revisionist
- C) arbitrarian
- D) negativist

Answer: A

Explanation: The average investor tends to sell stocks when their values have declined and buy stocks when their values have risen. Contrarians go against the grain. They tend to buy when most others are selling. The logic of this approach is that the best time to buy stock is when prices are low—i.e. when the market is in decline.

Difficulty: 3 Hard

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

190) Quinn is excited about getting her first credit card. However, she should be aware of the fact that

- A) credit cards are no longer accepted in many places as a valid source of credit.
- B) credit cards require that at least 25% of the balance be paid each month.
- C) there will be a finance charge even if Hannah pays her entire credit card balance in full and on time.
- D) the convenience of credit cards can lead to excessive debt.

Answer: D

Explanation: The convenience of credit cards can lead consumers to buy goods and services that they would not normally buy if they had to pay cash or write a check on funds in the bank.

Difficulty: 3 Hard

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

191) Patrick is in the habit of using his credit card for expenditures made on business trips. The most likely reason he does this is to

- A) lower his business expenses.
- B) take a deduction on the interest he pays on his credit card balance.
- C) pad his expense account.
- D) keep track of his purchases.

Answer: D

Explanation: Credit cards are an easy way to keep track of purchases for budgeting and financial planning purposes. It's sometimes easier to write one check at the end of the month for several purchases than to carry cash around.

Difficulty: 3 Hard

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

192) _____ life insurance offers pure insurance protection for a given period of time.

- A) Term
- B) Temporary
- C) Managed premium
- D) Equity-based

Answer: A

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

193) One disadvantage of term life insurance is that

- A) when renewed it usually is at a higher premium.
- B) the risk of lost income from the death of the insured is shifted to the insurance company.
- C) it is pure insurance protection for a given time period.
- D) it is generally not available to young people.

Answer: A

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

194) Which of the following is a form of term insurance that guarantees fixed premiums for the life of the policy?

- A) universal life insurance
- B) planned annuity life insurance
- C) declining coverage, fixed payment insurance
- D) multiyear level-premium insurance

Answer: D

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

195) _____ is a form of life insurance that provides both a savings plan and pure insurance coverage.

- A) Term life insurance
- B) Growth-centered life insurance
- C) Whole life insurance
- D) Multiyear level-premium insurance

Answer: C

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

196) Which of the following is a form of whole life insurance that provides a death benefit that varies with the performance of the investments of the insurance company?

- A) flexible whole life insurance
- B) variable life insurance
- C) adjustable benefit insurance
- D) multiyear level-premium insurance

Answer: B

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

197) A contract that calls for regular payments to an individual for life or for a fixed period of time is called a(n)

- A) annuity.
- B) fixed dividend plan.
- C) mutual fund.
- D) level premium agreement.

Answer: A

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

198) Your chances of becoming disabled at an early age are _____ than your chance of dying from an accident.

- A) the same
- B) much less
- C) much greater
- D) slightly less

Answer: C

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

199) Purchasing _____ insurance is a relatively low cost way of protecting yourself from lost income due to an accident or prolonged illness.

- A) flexible term
- B) health
- C) contingent annuity
- D) disability

Answer: D

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

200) _____ insurance provides protection from the cost of medical care for illnesses and injuries.

- A) Term
- B) Health
- C) Renters
- D) Homeowner's

Answer: B

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

201) _____ insurance provides protection from losses of furniture, appliances, and clothes.

- A) Term
- B) Health
- C) Disability
- D) Homeowner's

Answer: D

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

202) A homeowner's insurance policy that includes a provision for _____ would provide the homeowner with enough cash to replace the items lost with new items.

- A) actual book value protection
- B) cash in lieu of coverage
- C) guaranteed replacement cost
- D) full collateral damage protection

Answer: C

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

203) One strategy to lower the cost of automobile insurance is to purchase a policy with a

- A) low deductible.
- B) high deductible.
- C) liability coverage rider.
- D) health coverage rider.

Answer: B

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

204) A(n) _____ can be added to a homeowner's insurance policy that provides for coverage at a reasonable cost for items that the policy otherwise would not cover.

- A) rider
- B) opener
- C) extender
- D) modifier

Answer: A

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

205) Many insurance providers offer _____ policies that give a discount to families who buy several types of insurance coverage from them.

- A) umbrella
- B) universal
- C) multi-use
- D) rider-enhanced

Answer: A

Difficulty: 1 Easy

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

206) A comparison of variable life insurance to a standard whole life plan would reveal that

- A) they are essentially identical.
- B) variable life offers only pure insurance but does so at a very low cost, while a standard whole life plan costs more but offers both insurance and a savings plan.
- C) both a standard whole life and variable life insurance offer both life insurance and savings, but variable life invests the savings more aggressively than whole life.
- D) variable life is only available to people who want at least \$1 million in coverage—and are willing to pay for it.

Answer: C

Explanation: Variable life is a variation of whole life that invests savings more aggressively than do ordinary whole life plans. This can lead to higher returns on saving, but is a riskier strategy that could result in a variation in the death benefit.

Difficulty: 2 Medium

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

207) A common purpose of a rider added to a homeowner's policy is to

- A) provide coverage for items that the standard policy does not cover.
- B) limit the insurance company's liability for certain types of losses.
- C) waive the provision that requires the owners to get a health exam.
- D) allow the policy holder to obtain health, disability, and auto insurance under their homeowner's plan.

Answer: A

Explanation: Most homeowner's policies do not automatically cover things like expensive jewelry or silverware. However, insurance companies offer riders to their standard policies which provide additional protection for these types of items at a reasonable cost.

Difficulty: 2 Medium

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

208) Which of the following deductible levels would result in the lowest premium for automobile insurance?

- A) \$ 200
- B) \$ 500
- C) \$ 750
- D) \$1,000

Answer: D

Explanation: The higher the deductible, the lower the premium.

Difficulty: 2 Medium

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

209) Nate and Audrey are married and have careers in business. If one of the two were to die, there would be a sudden drop in income. To provide protection from this risk the couple should purchase

- A) disability insurance.
- B) life insurance.
- C) health insurance.
- D) car insurance.

Answer: B

Explanation: Life insurance is used to protect a family or business from the sudden loss of income that occurs as the result of the death of an income earner.

Difficulty: 3 Hard

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

210) Mateo and Maya have decided to take out an umbrella policy from an insurance company. The main reason they would probably want to do this would be to

- A) protect against major disasters, which are known as "rainy days."
- B) ensure that any children they have will be guaranteed the right to buy insurance at some future date.
- C) save money by having one company provide a variety of different types of coverage.
- D) take out one life insurance policy that covers both of them.

Answer: C

Explanation: Under an umbrella policy, one insurance company provides a variety of different types of insurance, such as homeowner's, auto, and health coverage. This may be attractive because companies often provide substantial discounts for this type of policy arrangement.

Difficulty: 3 Hard

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

211) Although he has a good health insurance policy, Shaun is concerned that a serious accident or lengthy illness would still be devastating to his family because of the lost income and other expenses not covered by his policy. Shaun would probably be interested in obtaining

- A) disability insurance.
- B) a premium waiver provision.
- C) health extension coverage.
- D) a rider on his homeowner's policy.

Answer: A

Explanation: Health insurance usually covers much of the cost of treating an illness or accident, but it does not usually cover lost income or other expenses associated with long-term health problems. Disability insurance can be used to supplement health insurance and cover many of these extra costs.

Difficulty: 3 Hard

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

212) Henry and Mila are newlyweds and received some very expensive wedding gifts, including some beautiful silverware and jewelry. Their homeowner's policy

- A) automatically covers these items.
- B) does not automatically cover such items and they must take out a separate policy specifically for those types of items.
- C) does not automatically cover these items, but a rider can be used to add this coverage.
- D) automatically covers these items from theft, but not from damage due to fire, explosion, or vandalism.

Answer: C

Explanation: Most homeowner's policies do not cover expensive items such as wedding rings and silver items. However, it is possible to purchase riders to the standard policies which will cover such items at a reasonable cost.

Difficulty: 3 Hard

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

213) Almost _____ U.S. adults has accumulated enough money by retirement age to live comfortably.

- A) 1 in 10
- B) 1 in 4
- C) 1 in 2
- D) 8 in 10

Answer: A

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

214) The Social Security program was established in

- A) 1889.
- B) 1935.
- C) 1953.
- D) 1976.

Answer: B

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

215) The number of workers paying into Social Security for each retiree receiving Social Security benefits is

- A) fixed by law.
- B) increasing.
- C) decreasing.
- D) not fixed by law, but has remained relatively constant for several decades.

Answer: C

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

216) In the future, the Social Security system is likely to

- A) raise taxes and reduce benefits.
- B) increase cost-of-living adjustments.
- C) establish a younger retirement age.
- D) adequately provide for all the retirement income the typical retiree needs to live comfortably.

Answer: A

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

217) Trends in the number of workers contributing to the Social Security system and the number of workers drawing benefits from the system suggest that future generations will

- A) have more frequent cost-of-living adjustments.
- B) see significant improvements in the level of benefits.
- C) face a later retirement age in order to qualify for full Social Security benefits.
- D) not be allowed to invest in private pension plans.

Answer: C

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

218) The tax-deferred investment plan that allows employees to save part of their income for retirement is called a(n)

- A) 60/40 plan.
- B) individual retirement account (IRA).
- C) 704(i) plan.
- D) Keogh plan.

Answer: B

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

219) The earnings on a traditional IRA are

- A) never taxed, in order to encourage people to invest for their retirement.
- B) tax-free until the Social Security system is improved.
- C) taxed as income when they are withdrawn after retirement.
- D) available to the investor without a penalty.

Answer: C

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

220) A Roth IRA offers employees an incentive to save for their retirement by

- A) deferring taxes on income contributed to the IRA.
- B) eliminating taxes on the withdrawals from the IRA.
- C) eliminating taxes on the income contributed to the IRA.
- D) allowing employers to match the employee's contribution to the IRA.

Answer: B

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

221) Investments in IRA accounts

- A) are limited to money market funds and government bonds.
- B) can be in stocks, bonds, mutual funds, or even precious metals.
- C) are matched by the employer.
- D) are taxed at the lowest individual tax rate regardless of the actual tax bracket of the investor.

Answer: B

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 222) One benefit of a simple IRA is that it allows
- A) employees of small companies to save more than a regular IRA.
 - B) employees to invest in the corporate bonds of their employers.
 - C) business owners to use employee retirement funds to help finance their small business.
 - D) employees to withdraw funds from the IRA prior to retirement without penalty.

Answer: A

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 223) A retirement plan where employers often match part of an employee's contribution is known as a
- A) simple IRA.
 - B) Roth IRA.
 - C) Keogh plan.
 - D) 401(k) plan.

Answer: D

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Knowledge thinking

Accessibility: Keyboard Navigation

- 224) Withdrawals from a traditional IRA prior to the age of 59½ are
- A) tax deferred until you reach 65 years of age.
 - B) tax-free.
 - C) normally subject to a penalty and taxes on the income that is withdrawn from the IRA.
 - D) subject to a possible denial after review by the Internal Revenue Service.

Answer: C

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

225) The simple IRA plans allow employees of _____ companies to contribute larger amounts than the traditional IRA.

- A) nonprofit
- B) small
- C) big
- D) international

Answer: B

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

226) The tax-sheltered program to encourage self-employed people to accumulate retirement funds is called a(n)

- A) 401(k) plan.
- B) IRA plan.
- C) COLA plan.
- D) Keogh plan.

Answer: D

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

227) The people who assist families in developing a comprehensive program that covers investments, taxes, insurance, and retirement plans are called

- A) insurance salespeople.
- B) financial planners.
- C) portfolio managers.
- D) stockbrokers.

Answer: B

Difficulty: 1 Easy

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

228) For someone with a family that includes young children, the first step in estate planning should be to

- A) establish a will.
- B) set up a trust fund for each child.
- C) select a guardian for the children.
- D) give each child his or her own savings account.

Answer: C

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

229) A _____ is a document that names a guardian for your children, states how you want your assets distributed, and names an executor to handle your estate when you die.

- A) trust arrangement
- B) durable power of attorney
- C) proxy sheet
- D) will

Answer: D

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

230) A(n) _____ is the person named in a will to assemble and value the assets of the deceased, handle tax matters, and distribute the assets.

- A) executor
- B) guardian
- C) arbiter
- D) intermediary

Answer: A

Difficulty: 1 Easy

Topic: Financial Planning

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

231) The earnings of a traditional individual retirement account (IRA) are

- A) taxed at the time they are earned.
- B) not taxed.
- C) taxed when the funds are withdrawn.
- D) subject to the double taxation of all dividends.

Answer: C

Explanation: The earnings of an IRA are tax-deferred until they are withdrawn. At that time, the applicable tax rate should be lower for the retiree.

Difficulty: 2 Medium

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

232) The biggest advantage of the Roth IRA is that

- A) income contributed to the retirement plan is tax-free.
- B) withdrawals from the retirement plan are tax-free.
- C) taxes on the income contributed to the retirement plan are deferred until the funds are withdrawn.
- D) withdrawals from the retirement plan are tax-deferred until the individual reaches 59½ years of age.

Answer: B

Explanation: People who invest in a Roth IRA do not get the up-front deductions on their taxes offered by a traditional IRA. The biggest advantage lies in the provision that the earnings of the fund are tax-free when they are withdrawn.

Difficulty: 2 Medium

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

233) The increase in the number of retirement plans approved by the federal government likely indicates that

- A) the government budget is approaching a surplus.
- B) most people have faith in the troubled Social Security system.
- C) Social Security cannot be counted on to provide an individual with ample funds for retirement.
- D) as a nation our values have shifted so that we now enjoy the value of saving more and consuming less.

Answer: C

Explanation: The government has established incentives for you to save money now for retirement because of the problems foreseen in the Social Security system.

Difficulty: 2 Medium

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

234) For workers who qualify, the earnings from income invested in a traditional IRA are

- A) not taxed until the funds are withdrawn.
- B) never taxed.
- C) taxed at the time they are earned, but at the lowest individual rate.
- D) taxed both at the time the money is earned and at the time the earnings are withdrawn.

Answer: A

Explanation: Neither the money invested nor the earnings of an IRA are taxable for qualified employees until the funds are withdrawn. Part of the tax advantage is that when workers retire, they will likely then be taxed at a lower rate.

Difficulty: 2 Medium

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

235) A Keogh retirement plan would be used by a(n)

- A) self-employed engineering consultant.
- B) employee at a small manufacturing firm.
- C) CEO of a major corporation.
- D) librarian at a city library.

Answer: A

Explanation: A Keogh plan is like an IRA for people who are self-employed, but it permits much larger contributions (currently up to \$54,000 per year). It is intended to encourage self-employed people to accumulate retirement funds. The only self-employed individual listed in the answers is the engineering consultant.

Difficulty: 2 Medium

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

236) Financial planners encourage individuals to begin contributing funds into an IRA as early as possible. The major benefit of early and regular contributions is that

- A) the earnings will be able to grow over a longer time span, which can result in major financial gains.
- B) the financial planners will earn a commission for a longer period of time.
- C) the inflation rate is very low now and will probably rise in the future, thus reducing the real value of future contributions.
- D) the tax rates are likely to be lower in the future, so higher tax savings on contributions will be maximized by making the contributions now.

Answer: A

Explanation: The key decision for workers is to begin early to contribute into an IRA, so that the magic of compounding can turn that money into a sizable retirement fund.

Difficulty: 2 Medium

Topic: Financial Planning

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

237) Which of the following is an indication that the government recognizes Social Security money will not provide you with ample funds for retirement?

- A) The government has provided cost-of-living adjustments to Social Security recipients.
- B) The government has invested the contributions in high-yielding investment securities.
- C) The government has established incentives for workers to save their own money for retirement.
- D) The government has passed legislation to require Social Security to maintain a balanced budget.

Answer: C

Explanation: Congress has authorized tax shelters for individuals saving for their own retirement. Individual retirement accounts IRAs, 401(k) plans, and Keogh plans all offer the benefit of postponing the tax liability of earnings on investments until the money is withdrawn at retirement.

Difficulty: 2 Medium

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

238) John is thinking about preparing a durable power of attorney. This indicates that he wants to

- A) ensure that a single lawyer will be able to handle all of his legal needs.
- B) declare that his current will is invalid.
- C) eliminate the taxes on his estate when he dies.
- D) appoint someone to take over his finances if he should become incapacitated.

Answer: D

Explanation: A durable power of attorney is a document that gives an individual you name the power to take care of your finances if you become incapacitated.

Difficulty: 3 Hard

Topic: Financial Planning

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

239) As an employee of Marshall Manufacturing, Sherry has an opportunity to invest pre-tax income in an employer-sponsored retirement plan. Her employer will contribute 50 cents for every dollar that Sherry contributes to this fund. What is this an example of?

- A) individual retirement account (IRA) plan
- B) 401(k) plan
- C) Keogh plan
- D) restricted private investment (RPI) plan

Answer: B

Explanation: Many firms offer 401(k) retirement plans. In addition to the benefit of tax-deferred investment and earnings, employers often match a portion of the employee's contribution as part of the firm's fringe benefits package.

Difficulty: 3 Hard

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

240) Christian quit his job to open his own online consulting business. He now realizes that he no longer has the benefit of a corporate retirement system. He should consider investing in a(n)

- A) simple 401(k) plan.
- B) simple IRA plan.
- C) automated trust account.
- D) Keogh plan.

Answer: D

Explanation: The tax-deferred alternative for self-employed people is to establish a Keogh plan. It's like an IRA for entrepreneurs. One big advantage of Keogh plans is that the maximum that can be invested is much greater than for a traditional IRA. (Keogh's maximum currently is \$54,000. The government is allowing a gradual increase in IRA contributions, but even in 2017 the maximum contribution to an IRA is only \$5,500.)

Difficulty: 3 Hard

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

241) Thomas contributed \$2,800 to a Roth IRA. He is currently in the 25% tax bracket. How will his contribution affect his income tax for the current year?

- A) It will reduce the amount of taxes he owes in the current tax year by \$700.
- B) It will increase the amount of taxes he owes in the current year by \$700.
- C) It will reduce the amount of taxes he owes in the current year by \$2,100.
- D) It will have no effect on the amount of taxes he owes this year.

Answer: D

Explanation: A contribution to a Roth IRA does not reduce taxes in the year of the contribution. The advantage of a Roth IRA is that the withdrawals are not taxed (at least as long as they occur after age 59½.)

Difficulty: 3 Hard

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

242) Terrence is in the 30% tax bracket. What is the after-tax cost of a \$3,000 contribution to his traditional IRA account?

- A) \$900
- B) \$1,440
- C) \$2,100
- D) zero

Answer: C

Explanation: Contributions to a traditional IRA create a tax shelter in the same year the contribution is made. The taxes on the \$3,000 would have been \$900 ($\$3,000 \times 30\%$). Therefore, the after-tax cost of the \$3,000 contribution is \$2,100 ($\$3,000 - \900).

Difficulty: 3 Hard

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

243) Claire has contributed to a Roth IRA for the last several years. She is now in her late sixties and has just retired. She plans to withdraw \$3,000 this year from her Roth IRA. If she is in the 25 percent tax bracket, how much tax will she have to pay on her withdrawal?

- A) \$ 750
- B) \$1,000
- C) \$2,250
- D) She will not owe any taxes on this withdrawal.

Answer: D

Explanation: The Roth IRA does not offer an up-front tax advantage when the contributions are made. The advantage of this newest IRA is that the withdrawals of earnings from the Roth IRA are tax-free.

Difficulty: 3 Hard

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

244) Connor is worried that his health may soon deteriorate to the point where he will no longer be able to take care of his own finances. One way he could ease his mind would be to

- A) name an executor to his will.
- B) prepare a durable power of attorney.
- C) transfer title to all of his real estate and financial assets to a relative he trusts.
- D) invest all of his financial assets into a Keogh plan.

Answer: B

Explanation: A durable power of attorney is a document that gives an individual you name the power to take over your finances if you become incapacitated.

Difficulty: 3 Hard

Topic: Financial Planning

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

245) What advice might a personal financial advisor offer a recent college graduate desiring to become financially secure?

Answer: The first step is to recognize that success in a capitalist system requires capital (money) to invest. This is accomplished by having a job and spending less than you earn.

Once the graduate has money to invest, a capital-generating strategy requires that for the first five or six years after graduation, the graduate should live frugally. The lifestyle is one of sacrifice, not luxury.

The first real estate investment might be to purchase two attached homes. This investment offers the advantage of rent income and the tax advantages of home ownership.

Savings should likely be in stocks rather than the bank because the return is higher and the graduate has a long-term view of investing.

Finally the graduate should learn to manage credit by paying off the cards each month and using them only for convenience or to have an efficient record of purchases.

Difficulty: 3 Hard

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

246) What are the advantages of investing in a home?

Answer: One of the better investments persons can make is home ownership. Homes historically have grown in value each year, particularly if located in the "best part of town." Once you buy a home, the payments are relatively fixed. As income rises, the house payments get easier and easier to make. Paying for a home is a good way of forcing yourself to save. You must make the payments every month. Home ownership also offers tax relief in that both real estate taxes and mortgage interest are deductible from federally taxed income. Finally, a home is the one investment in which you can live.

Difficulty: 3 Hard

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

247) Identify and discuss the six steps that individuals can take to gain control of their personal finances.

Answer: Step 1. Take inventory of your financial position. This is accomplished by the preparation of a personal balance sheet and an income statement.

Step 2. Keep track of all your expenses. This can be a chore, but a necessary one. The goal here is to identify clearly where the money is going when it is spent.

Step 3. Prepare a budget. Once you know your financial position and the sources of revenues and expenses, a budget can be prepared. This will enable you to plan for the achievement of financial goals, as well as control the family cash flow.

Step 4. Pay off your debts. The first thing to do with any extra money identified in the budget is to pay off high-interest debt. It is better to pay off high-cost debt than to save the money in a lower-interest savings account.

Step 5. Start a savings plan. The best way to save money is to pay yourself first. That is, take out money for savings before any other expenditure is made.

Step 6. If you have to borrow money, only borrow to buy assets that have the potential to increase in value, such as a house. Don't borrow for day-to-day expenses.

Difficulty: 3 Hard

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

248) Compare the basic features of the traditional IRA and Roth IRA.

Answer: Both the traditional and Roth IRAs offer tax incentives to encourage people to save for their retirement. The difference is when the tax incentives occur.

The traditional IRA offers a tax deduction from taxable income for contributions made by qualified employees and allows the earnings to grow tax-free, but taxes any withdrawals made at the time of retirement.

The newer Roth IRA does not offer a tax deduction for the contributions made to the retirement plan, but it does allow earnings to grow tax-free and it also allows retirees to make tax-free withdrawals after age 59½.

Difficulty: 3 Hard

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

249) How does term insurance differ from whole life insurance? Describe the newer types of life insurance that have been offered in recent years.

Answer: Term life insurance offers pure insurance with no savings feature. Whole life insurance offers insurance protection, but also offers savings. Because term insurance does not offer savings it is less expensive than whole life.

One drawback of term insurance is that it provides coverage for only a limited number of years, and the premiums can increase over time. A new version of term insurance, called multiyear level-premium life insurance attempts to address this problem, by guaranteeing a fixed premium for the life of the policy, which may run for many years. This has proven very popular. In fact, about 40 percent of recent term insurance policies have guaranteed a set rate for at least 20 years. Because of its saving feature, whole life insurance may be attractive to people who have a hard time sticking to a saving plan. However, the typical whole life policy tends to invest funds very conservatively. This is a safe approach, but the earnings tend to be modest. A newer version, called variable life insurance, tends to take a more aggressive approach, investing savings in stocks and other assets that offer the potential of high yields. The death benefit provided by variable life will depend on the performance of the investments. During the Great Recession, returns often were disappointing, but history suggests that over the long term this type of policy will offer an attractive alternative to the traditional whole life policy.

Difficulty: 3 Hard

Topic: Insurance Policies

Learning Objective: D-03 Explain how buying the appropriate insurance can protect your financial base.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

250) Describe the major steps involved in estate planning.

Answer: For people with young children, the first step in estate planning is to select a guardian. The person selected should have a genuine concern for the children, and should have a compatible parenting style and moral beliefs. It is also important to ensure that adequate resources will be available to take care of the children's needs.

The second step in estate planning is to prepare a will. This document should name the guardian for any children, state how assets are to be distributed, and name an executor to handle, assemble, and value the estate's assets, deal with tax issues, and carry out the terms described in the will.

The third step is to prepare a durable power of attorney. This document names an individual who could manage the estate's finances if the owner became incapacitated. It is also possible to establish a durable power of attorney for health care to make medical decisions if the person who owns the estate is unable to make those decisions.

Difficulty: 3 Hard

Topic: Financial Planning

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

Mini-Case

Ira Roth and Penny Weiss met and married in the early 2000s, during their days at State University. Both came from families with limited financial resources. They had to work at part-time jobs during school, and still needed student loans to help pay for their college education. Ira and Penny shared a strong work ethic and had a great desire to succeed financially and enjoy the good life.

Penny and Ira quickly experienced financial success. Ira used his finance degree and extensive knowledge of computers to obtain a high-paying job in banking. Penny, who cleaned homes to earn money during college, used her experience to start her own business. Her entrepreneurial spirit surprised Ira and their friends, and she built a successful cleaning business with a growing base of residential clients and even a few commercial customers. She soon had to hire several part-time employees to keep up with demand. With money rolling in, Ira and Penny began to live the good life, buying an expensive new car, a state-of-the-art home electronics, and expensive wardrobes. As busy as they were, and as hard as they both worked, they often found it easier to dine at a nice restaurant rather than fix meals at home.

When the Great Recession hit later in the decade, Ira was lucky enough to keep his job, but was forced to take a significant pay cut. The economic downturn forced some of the households and businesses that used Penny's company to cut back on professional cleanings, so her business suffered too. Soon the couple was struggling to pay the rent on their upscale apartment. They began relying on credit cards to cover expenses, but after a few months the credit limits on their cards had been reached. They fell behind in paying off their student loans and started getting some unpleasant calls from bill collectors. The stress and frustration led to arguments that began to threaten their personal relationship. With their personal finances out of control, Ira and Penny knew that they had to make changes to save not only their financial dreams, but also their marriage. However, they were at a loss as to where to start. Family members encouraged them to seek the advice of a financial planner. The couple reluctantly agreed that this was something they needed to do.

- 251) One of the first things the financial planner is likely to have them do would be to
- A) open an individual retirement account (IRA).
 - B) borrow money to pay for their excess expenses.
 - C) take inventory of their financial position.
 - D) return to school and pursue a graduate degree.

Answer: C

Explanation: Preparing a personal balance sheet and income statement will allow the couple, as well as the financial planner, to gain better insights into the couple's financial situation.

Difficulty: 3 Hard

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

252) By using the financial planner's advice, Penny and Ira were able to find ways to cut back on their spending and began to live more modestly. They began to have a few hundred dollars left over each month after handling their normal expenses. Which of the following is the first thing they should do with their extra money?

- A) buy one nice household item that they will both enjoy as a reward for their thriftiness
- B) pay off their debts, starting with the ones that have the highest finance costs
- C) start a savings account at a local bank
- D) buy bonds in a major corporation

Answer: B

Explanation: Saving and investing money is certainly a desirable goal, but before doing so Ira and Penny should pay off any debts, especially those with high interest rates, such as credit cards. Many credit cards charge interest rates in double digits. Paying off a credit card that charges 17 percent is essentially like earning a 17 percent tax-free return on an investment. In recent years few bonds, much less bank savings accounts, have come close to matching that sort of return.

Difficulty: 3 Hard

Topic: Financial Planning

Learning Objective: D-01 Outline the six steps for controlling your assets.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

253) As their situation began to improve, the financial adviser began discussing investment strategies with Penny and Ira. He suggested that they might want to invest in the stock market. He surprised them by saying that they should try to buy stocks during a major downturn in the market—just when most people were trying to sell. This statement suggests that the financial advisor agreed with the

- A) contrarian approach to investing.
- B) concept of "buying short."
- C) use of leverage in the stock market.
- D) random walk theory of investment strategy.

Answer: A

Explanation: When it comes to investing, contrarians go against the grain. They tend to buy when most others are selling. The logic of this approach is that the best time to buy stock is when prices are low—i.e., when the market is in decline.

Difficulty: 3 Hard

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

254) Once Ira and Penny achieved a more solid financial foundation, they began to consider the purchase of a home. From a financial standpoint, a sound strategy for them to consider would be to

- A) buy a large house in a modest neighborhood.
- B) buy a house in one of the best areas of town, even if they can afford only a relatively small house.
- C) buy a house that will minimize their total real estate taxes.
- D) make sure that their house payments are less than the rent they were paying on their old apartment.

Answer: B

Explanation: The key to housing values is location. It is usually a better investment to buy a small house in a great neighborhood than to buy a bigger house in a less desirable part of town.

Difficulty: 3 Hard

Topic: Building a Financial Base

Learning Objective: D-02 Explain how to build a financial base, including investing in real estate, saving money, and managing credit.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

255) In saving for retirement, Penny could take advantage of the unique tax shelter offered only to small-business owners in a

- A) 401(k) plan.
- B) simple IRA plan.
- C) Roth plan.
- D) Keogh plan.

Answer: D

Explanation: The Keogh plan is like an IRA for entrepreneurs. It offers the same tax shelter that an IRA does, but allows for a greater sum of money to be contributed each year tax-free.

Difficulty: 3 Hard

Topic: Retirement

Learning Objective: D-04 Outline a strategy for retiring with enough money to last a lifetime.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

Understanding Business, 12e (Nickels)

Chapter 01 Taking Risks and Making Profits within the Dynamic Business Environment

- 1) Businesses provide goods, jobs, and services to others.
- 2) Businesses seek to earn a profit by providing goods and services to others.
- 3) Revenue is the amount a business earns above and beyond what it spends for expenses and costs.
- 4) Profit is the amount of money a business earns above and beyond what it spends for salaries and other expenses.
- 5) Since all businesses make a profit, starting a business is not risky.
- 6) An entrepreneur risks time and money to start and manage a business.
- 7) If a business's costs and expenses are greater than its revenue, it will suffer a loss.
- 8) Profits of a business include the salaries paid to its employees.
- 9) Revenue is the total amount of money a business takes in during a given period by selling goods and services.
- 10) Risk is the chance an entrepreneur takes of losing time and money on a business that may not prove profitable.
- 11) The United States has one of the highest standards of living in the world.
- 12) The term "standard of living" refers to the amount of debt people can incur on a given income.
- 13) Health care availability, a clean environment, and good schools all contribute to a high quality of life.
- 14) Maintaining a high quality of life requires the combined efforts of businesses, nonprofit organizations, and government agencies.
- 15) Stakeholders are all the people who stand to gain or lose by the policies and activities of a business.
- 16) Stakeholders include customers, employees, stockholders, suppliers, dealers, bankers, government officials, and environmentalists.
- 17) Outsourcing means selling goods and services to people in other countries.

- 18) Outsourcing has caused complications in many states where jobs have been lost to overseas companies.
- 19) Insourcing refers to the practice of global companies setting up design and production facilities in the United States.
- 20) The knowledge and skills learned in business courses are seldom relevant to students who work for nonprofit organizations or volunteer groups.
- 21) Businesses and nonprofit organizations often strive to accomplish the same objectives.
- 22) Nonprofit organizations use financial gains to meet stated social or educational goals of the organization rather than personal profit.
- 23) The only real purpose of a business is to make money for entrepreneurs.
- 24) The only way a firm can increase its profits is to increase its sales revenue.
- 25) The amount of profit or loss earned by a business can be found by subtracting the firm's expenses from its revenues.
- 26) Nonprofit organizations are similar to for-profit businesses in that they often provide goods and services that satisfy the needs of society.
- 27) Unlike businesses, employees of nonprofit organizations are not required to learn the business skills of information management, marketing, or financial management.
- 28) Business decisions should consider the interests of customers, employees, suppliers, government leaders, and stockholders.
- 29) Businesses satisfy the demands of all stakeholders by balancing the demands of customers and stockholders.
- 30) An effort to please one group of stakeholders eventually pleases all stakeholders.
- 31) Insourcing creates new jobs, and helps offset the number of jobs being outsourced.
- 32) Sarah has started her own candy company. While she recognizes the risks involved in operating a business, she is still willing to invest her time, effort, and money in hopes of earning a profit. Sarah is an example of an entrepreneur.
- 33) Brandford Books, an eclectic bookstore in a Phoenix suburb, generated total revenues of \$17 million while incurring expenses of \$14 million. By the end of the year, Brandford Books earned a profit of \$3 million.

- 34) Since businesses strive to earn a profit, their owners benefit at the expense of the rest of society.
- 35) Jose earned the same amount of money this year as he did last year. Thus, his standard of living must be the same as it was last year.
- 36) Christina quit her job in Chicago to take a less stressful position in a small town located in a scenic area. She now earns less money and has had to cut back on her purchases of material goods, but she has more free time and really enjoys the clean air and scenic beauty of her new home. Christina has accepted a lower standard of living in order to enjoy a higher quality of life.
- 37) Political freedom, quality education, access to health care, and a clean environment are all factors that contribute to an improved quality of life.
- 38) People living in San Francisco, CA, on average earn more money than people living in Kansas City, MO. The citizens of San Francisco enjoy a higher standard of living than the citizens of Kansas City.
- 39) The major difference between businesses and nonprofit organizations is that only businesses can increase the standard of living, while only nonprofit organizations can improve the quality of life.
- 40) A charitable organization, such as the American Red Cross or Salvation Army, is classified as a for-profit organization.
- 41) It was recently reported that Japan succeeded in improving its people's standard of living and establishing a relatively affluent society. This report clearly indicates that both income levels and the price of goods and services rose significantly during that time period.
- 42) Starting a business is a riskier path toward business success than working your way up the ranks of a large business.
- 43) Working as an entrepreneur is the only way to succeed in business.
- 44) Paid vacations and health care insurance are among the benefits provided by the government to entrepreneurs.
- 45) Land, sometimes called a natural resource, is the most critical factor of production in explaining why some countries are poor while others are rich.
- 46) Money is one of the five factors of production that contribute to the creation of wealth.
- 47) Tools, machinery, and buildings are examples of capital resources.
- 48) The major advantage rich nations have over poor nations is an abundance of land and labor.

- 49) Entrepreneurship is one of the five factors of production that contribute to the creation of wealth.
- 50) Business consultant Peter Drucker said that the most important factor of production is knowledge.
- 51) Most business experts agree that entrepreneurship and the effective use of knowledge are the most important contributors to the creation of wealth.
- 52) The business environment refers to the surrounding factors that either help or hinder the development of businesses.
- 53) Countries with an inadequately trained workforce and few entrepreneurs often achieve the highest levels of income by relying on a large number of workers.
- 54) If they wish to create more wealth, poor nations should focus on policies that increase entrepreneurship and the effective use of knowledge.
- 55) Aaron recently opened Twangy Tunes, a small recording studio in Nashville, TN. He probably could have set up shop in several major cities, but Nashville offered him the two most important factors, according to Peter Drucker, that would enhance the creation of wealth: labor and political freedom.
- 56) Gary recently completed his degree in management and is planning to start a business rehabilitating apartment buildings. After researching several potential areas, he chose Los Angeles due to its high population. Greg felt that this factor would create a large labor pool, the most important of the five factors of production.
- 57) Jackson is supposed to be studying for finals but his mind keeps wandering to the beach. Several years ago, his Uncle Mitch made it big and now owns a small resort near Fort Lauderdale. He promised Jackson a management trainee position and the opportunity to buy into the company by contributing a portion of his paycheck each month back into the business. As he daydreams about being his own boss, he should realize that freedom to succeed also means freedom to fail.
- 58) Taxes and government regulations are part of the economic and legal environment in which businesses operate.
- 59) High taxes and government restrictions help to encourage entrepreneurs by providing greater incentives for people to work hard and create profit.
- 60) One of the best things the governments of developing countries can do to increase wealth is to minimize interference with the free exchange of goods and services.
- 61) In countries where businesses cannot enter into binding contracts, business owners assume additional risk.

- 62) In an effort to increase wealth and their country's standard of living, many governments are taking over major industries and operating them as nonprofit organizations.
- 63) Corruption and illegal activities are expected in a capitalist system and can be beneficial.
- 64) One way for a government to actively promote entrepreneurship is to establish a currency that's tradable in world markets so that you can buy and sell goods anywhere in the world using that currency.
- 65) Honesty, integrity, and high ethical standards are essential to a capitalist economic system like the one that operates in the United States.
- 66) Laws that allow companies to write enforceable contracts decrease the risk of doing business.
- 67) In rich countries such as the United States, changes in the level of taxation have little impact on the incentives of entrepreneurs.
- 68) The failure to uphold high ethical business standards by a few companies can negatively impact the entire U.S. business community.
- 69) The government of the small nation of Gordonia owned the nation's telephone company and landlines. This relatively poor government relied on taxes to develop this industry and provide service to its citizens. If the government wanted to improve people's access to phone service, its best course of action would involve selling the telephone company to private investors.
- 70) The government of Willopolis is trying to attain a higher quality of life by imposing strict regulations to protect the environment and ensure safe working conditions in its industries. The government also has established programs to help the poor, financing them by raising tax rates. These efforts by Willopolis's government should create an atmosphere that encourages entrepreneurship.
- 71) Though it has received a lot of attention, the development of information technology (IT) has had less of an impact on the way businesses operate than many other changes.
- 72) An increase in productivity indicates that more can be produced in a given time period with the same amount of resources.
- 73) Technology can help businesses become more efficient and productive.
- 74) Productivity is the amount of output you generate given the amount of input such as hours worked.
- 75) Effectiveness means producing goods and services using the least amount of resources.
- 76) Effectiveness means producing the desired result.

- 77) Technology refers to everything that makes business operations more effective, efficient, and productive.
- 78) E-commerce is the buying and selling of goods online.
- 79) The online B2B market consists of selling goods and services to consumers.
- 80) The rise of online marketing has become particularly important in doing business in the B2B markets.
- 81) The business-to-business segment of e-commerce is of less importance than the business-to-consumer segment of e-commerce.
- 82) Technology allows firms to be more responsive to their customers' wants and needs.
- 83) Bar codes are a form of technology that has enhanced a company's ability to be responsive to consumer needs.
- 84) An electronic storage file where information is kept is called a CPU.
- 85) The databases of a business often include a great deal of information about the firm's customers.
- 86) Information in a database allows firms to carry only the products that the local population wants.
- 87) Identity theft is when individuals or firms access people's personal information and then use it for illegal purposes and activities.
- 88) The main difference between B2C and B2B e-commerce is that B2C is only used online, while B2B combines e-commerce with traditional (bricks-and-mortar) outlets.
- 89) One of the major advantages to firms involved in e-commerce is that the technology is still so new that the online firms face very little competition.
- 90) Natalie has joined several other investors to form a new company that sells cosmetics products to consumers online. Natalie has invested in a B2C e-commerce company.
- 91) Workers in the island nation of Rainland have enjoyed an increase in the number of holidays and a reduction in the average length of the workday. This has reduced the total number of hours they work each year. However, the output per worker is higher now than it was before the reduction in hours. These facts imply that productivity on the island has increased.

- 92) SmoothCoats produces industrial coatings for the steel industry. Until recently it relied on wholesalers to distribute its products to other businesses, but now it also sells directly to its B2B customers through its website. This is an example of the largest and most important type of e-commerce transaction.
- 93) As emerging technologies become widespread, businesses tend to find better uses for them. However, in the case of the Internet, businesses that sell B2B have not benefited from directly selling to their business customers in the same way that B2C companies have done.
- 94) Julia finds it easy to do all her holiday shopping online. She can take comfort in the fact that new technologies if installed properly are seldom used in unethical ways.
- 95) Technological innovation has a ripple effect. Kevin, a certified tech-nerd, is being courted by companies to write the next generation of antivirus software. Kevin should take this job because it will provide future opportunities for him.
- 96) To remain competitive in today's market, firms must produce a quality product and offer outstanding service at a reasonable price.
- 97) Producing a high-quality product will ensure success in the competitive environment.
- 98) Successful firms follow a customer-driven strategy, as opposed to the management-driven strategy used in the past.
- 99) Zero defects means that there is a company goal of no mistakes in making products.
- 100) Today's businesses have a managerial focus rather than a customer focus.
- 101) Competition is fierce! One way to respond quickly to customer needs is to develop a strategy of empowering employees.
- 102) A policy of empowerment encourages managers to make decisions quickly for their frontline employees.
- 103) Empowerment means giving frontline workers the responsibility, authority, and freedom to respond quickly to customer requests.
- 104) The goal of empowerment in the workplace is to prevent mistakes. Therefore, giving management more control over the actions of lower-level workers will prevent mistakes.
- 105) The primary focus of successful firms is designing and producing high-quality goods. Advertising is then used to convince consumers to buy their superior products.
- 106) It's important that firms are as efficient as possible. This is done by becoming management-driven for efficiency.

- 107) Customer-driven organizations require managers to closely direct and control their employees.
- 108) Buddy and Pablo are worthy competitors in the bakery business in Baltimore. Buddy recently negotiated a contract with a supplier for really cheap chocolate. He knows that bakery customers want cheap products. In this competitive environment, keeping the price down is all that matters.
- 109) Bonnie runs a house cleaning service. Although she and her employees could service 12 households in one day, they average eight homes per day. Bonnie recently restructured her crew and provided each housekeeper with an incentive to acquire two new customers each month through customer referrals. As a recent business graduate, you would tell her she's probably on the right track.
- 110) The statistical study of the human population to describe its size, age, gender, and income is known as diversity recognition.
- 111) The U.S. population tends to buy the same things and spend time in roughly the same way as people did a decade ago.
- 112) Demographic changes create new business opportunities.
- 113) Diversity groups identified in the market today can include extroverts, introverts, atheists, and the religious.
- 114) Companies have responded to a diverse customer base by hiring a more diverse workforce.
- 115) Currently people between the ages of 45 and 54 are the richest group in the United States.
- 116) New welfare rules have made it easier for single parents to remain at home with their young children without being required to seek employment.
- 117) In some cities, the number of legal and illegal immigrants has caused governments to adapt by changing signs and forms to other languages.
- 118) The federal government requires companies to take diversity very seriously, even recommending establishing a chief diversity officer in the executive suite.
- 119) One factor that has had a major effect on businesses is the growth of single-parent families.
- 120) Businesses that cater to older consumers in the future will likely not be successful.
- 121) Businesses use demographic studies to understand where people live, their lifestyles, and what they are likely to buy.

122) Diversity management would not be an issue if firms would treat all of their employees the same.

123) Demographic trends suggest that businesses will benefit from offering flexible work schedules, elder care, and child care to help employees balance the demands of job and family.

124) The current Social Security system will ensure that the young people of today will have Social Security benefits in the future when they retire.

125) Jorge, a recent college graduate, is thinking of investing in a home health care business. He believes this will be a profitable venture because of the increasing number of people in the U.S. that will be over 65 years of age in the near future and more likely to need this type of service. This accurately describes a demographic trend that will affect his business choice.

126) Elizabeth is a single mother of small children. Her employer is considering providing family leave. Since she is a single mom with two young children, she is unlikely to benefit from this program.

127) Jeff is an emergency room nurse at a regional hospital in Arizona. On a weekly basis, he will serve a number of patients who are not legally U.S. citizens. Fortunately, he speaks enough Spanish to communicate with the patients. Jeff is experiencing the realities of the social environment in some states.

128) Globalization has increased among nations.

129) An important environmental change in the global environment is the growth of international competition.

130) Improved distribution systems have led to more global trade.

131) Global trade has suffered because of increased problems with the Internet.

132) Globalization has greatly increased living standards around the world.

133) China and India have become major U.S. competitors.

134) The threat of terrorism increases the costs of operating most businesses.

135) Wars are costly to all companies.

136) War and terrorism have had a significant effect in drawing many resources away from the U.S. economy and led to many additional costs for businesses.

137) In most industries, the only producers that pose a serious threat to U.S. manufacturers are those in Japan and Western Europe.

138) Companies that participate in the defense industry by making weapons and other companies that make armored vehicles and even food companies do well when the U.S. is at war.

139) According to the box, "Hollywood Climbs the Great Wall," casting American actors of Chinese descent attracts larger audiences in China rather than casting a Chinese actor.

140) One of the problems with globalization is that distribution systems and communication systems lack efficiency.

141) The evidence for climate change is highly suspect. Well-known U.S. companies are taking a wait-and-see approach toward addressing climate change.

142) Michael James owns a small manufacturing company that makes ventilation systems used in the construction of buildings. As the U.S. continues to be involved in wars around the globe, Michael may notice that his business will be growing more slowly in the future as more money continues to be put into the war effort.

143) Lacey owns a bakery in Dallas. She read online that the homeland security threat level has been increased due to anticipated terrorist activities, especially in large cities in the U.S. She will likely not be able to get insurance to cover any losses her business may suffer should an attack occur in Dallas.

144) After several years of working and going to school part time, Hakim recently earned a degree in marketing at a local college. The growth in global markets may increase Hakim's job opportunities, but it will also require him to continually update his skills or seek additional education.

145) Maria is an engineer for Blustery Breezes, a small manufacturer of wind turbines. Recently, a larger company, PowerMen Electric, has shown interest in investing in this small operation. This is not surprising since firms that are creating products for alternative sources of energy are attracting the attention of governments and other businesses.

146) Over many years the nature of U.S. business has changed very little from century to century.

147) The number of U.S. jobs in manufacturing has increased in the past five years.

148) Technology helped the manufacturing industry to become more productive.

149) While the proportion of workers employed in agriculture has remained relatively constant, the average size of farms has steadily decreased over the past century.

150) Increases in productivity have allowed fewer farmers to feed more and more people.

151) The advice provided by a personal trainer is an example of the service industry.

152) Almost all of the growth in employment opportunities since the mid-1980s has been generated by the service sector.

153) Although employment in the service sector has increased rapidly in recent years, the vast majority of workers are still employed in the goods-producing sector.

154) There are currently more high-paying jobs in the service sector than in the goods-producing sector.

155) The best employment strategy for today's college graduates is to search for jobs that are closely related to their college major.

156) The growth in the service sector in the United States appears to be giving way to an information-based global era.

157) The transition from an agricultural economy to a manufacturing economy to a service-based economy has resulted in a serious increase in long-term unemployment.

158) One reason given for the decline in the number of U.S. workers employed in manufacturing is that manufacturing firms in the U.S. have become more efficient.

159) The continuing increase in the number of U.S. workers in the service sector means that more and more workers are employed in low-wage positions.

160) Historically jobs lost in one sector of the economy have been replaced by increased employment opportunities in other sectors.

161) Kira is a financial planner who helps people find ways to save for retirement and lower their taxes. Kira is employed in the service sector of the economy.

162) After losing her manufacturing job in the U.S. automobile industry, Cho has found that well-paid service-sector jobs require retraining and further education.

163) An entity that seeks to earn a profit by providing a good or service is known as a(n)

- A) industry.
- B) corporation.
- C) business.
- D) service.

164) _____ is the amount a business earns after deducting what it spends for salaries and other expenses.

- A) Profit
- B) Revenue
- C) Interest
- D) Dividends

- 165) A business incurs a _____ if its costs and expenses exceed its revenues.
- A) loss
 - B) liability
 - C) debit
 - D) dividend
- 166) _____ is the chance a business owner will lose the time and money invested in a business that proves to be unprofitable.
- A) Depreciation
 - B) Risk
 - C) Fallibility
 - D) Redundancy
- 167) The total amount of money that businesses take in by selling goods and services is called _____.
- A) profit
 - B) revenue
 - C) loss
 - D) retained earnings
- 168) A(n) _____ is a person who assumes the risk of starting a business.
- A) manager
 - B) entrepreneur
 - C) employee
 - D) stakeholder
- 169) Starting a business always involves _____.
- A) profit
 - B) loss
 - C) revenue
 - D) risk
- 170) Often in business the greater the risk, the _____.
- A) greater the potential reward
 - B) lower the expected revenues
 - C) lower the value provided to society
 - D) greater the number of stakeholders
- 171) _____ is a measure of the general well-being and satisfaction derived from a variety of factors including political freedom, safety, education, and a clean environment.
- A) Standard of living
 - B) Quality of life
 - C) Gross national income
 - D) Social satisfaction index

172) The amount of goods and services people can buy with the money they have is called their:

- A) nominal income.
- B) consumer price index.
- C) profit margin.
- D) standard of living.

173) The customers, employees, stockholders, suppliers, creditors, and others who stand to gain or lose by the policies and activities of a business represent the firm's:

- A) market makers.
- B) economic environment.
- C) stakeholders.
- D) social mentors.

174) The most important difference between for-profit businesses and nonprofit organizations is that:

- A) businesses do not benefit society.
- B) nonprofit organizations seek to make a profit for their owners and organizers.
- C) nonprofit organizations do not seek a profit for their owners or organizers.
- D) nonprofit organizations do not file tax returns.

175) Last year, Archer Electronics reported revenues of \$34 million while its total expenses were \$10 million. Based on this information, Archer reported

- A) profits of \$24 million.
- B) profits of \$34 million.
- C) losses of \$24 million.
- D) losses off \$34 million.

176) A common characteristic of most entrepreneurs is that they:

- A) accept the risks involved in starting and managing a business.
- B) have a high level of scientific and technical expertise.
- C) possess a great deal of personal wealth.
- D) have experience in running large, complex organizations.

177) Which of the following is the best example of a business whose goal is to earn a profit?

- A) A community college
- B) The American Red Cross
- C) Boy Scouts of America
- D) Apple

178) In order to make an intelligent investment decision, entrepreneurs should:

- A) limit their options to those business investments that are backed by the U.S. government.
- B) invest in businesses that have generated a stable rate of profit for at least the past 10 years.
- C) invest only in business opportunities where it is possible to take an active role in management.
- D) compare the risks of potential investments to their expected profits and find the right balance between profit and risk.

179) Honda and Hyundai have insourced for years to design and manufacture cars in the United States. Insourcing

- A) helps offset the number of jobs being outsourced.
- B) increases the number of jobs being outsourced.
- C) damages the United States economy.
- D) causes jobs to be lost to overseas competitors.

180) Public schools, charities, and government agencies generally _____.

- A) are incorporated
- B) do not seek to earn a profit
- C) provide goods rather than services
- D) do not have any stakeholders

181) For-profit businesses and nonprofit organizations are similar in that they both:

- A) contribute to the welfare of society.
- B) seek to earn a profit.
- C) have a limited life.
- D) must be controlled by a board of directors.

182) The standard of living for a nation's people depends mainly on:

- A) the quality of the natural environment.
- B) how much political freedom they have.
- C) their income and the prices of the goods and services they buy.
- D) the amount of labor and capital available employed in the manufacturing sector.

183) World-class businesses attempt to meet the needs of:

- A) their customers, even if it comes at the expense of employees and other stakeholders in the business.
- B) their employees, even if it means shortchanging customers by charging higher prices.
- C) all stakeholders.
- D) exclusively their owners, since they are ultimately the ones who pay the bills.

184) Michelle recently started selling her invention: A bed that looks like it floats in mid-air. The bed is actually suspended by magnetic forces. Michelle is a(n)

- A) arbitrageur.
- B) entrepreneur.
- C) speculator.
- D) account manager.

185) Donnell wants to invest some money that he just inherited. He found that his bank offers a savings account paying a guaranteed .3% rate of return. However, he would like to earn a higher return. Donnell should keep in mind that to earn a higher return on his money he

- A) will have to invest overseas.
- B) should invest in a business that has a very stable and predictable rate of return.
- C) will probably have to accept a higher level of risk.
- D) will probably have to engage in illegal activities.

186) Which of the following is the most accurate statement about the impact of business on society?

- A) When businesses earn a profit for their owners, they usually do so at the expense of the rest of society, which proves it is never a win-win situation.
- B) While businesses often improve the standard of living within a society, they can do little to improve the quality of life.
- C) Businesses often improve the quality of life, but can do little to improve the standard of living of most people due to inflation.
- D) Businesses can have a positive impact on both the standard of living and the quality of life within a society.

187) Though the prices of things she buys have gone up, Jin's income has remained stable over the past few years . Nevertheless, Jin feels better off because the environment is cleaner, the crime rate has dropped, she has more relaxation time, and the quality of medical care has improved. If Jin's experience is typical, we can assume that the standard of living has

- A) increased, but the quality of life has decreased.
- B) increased, and so has the quality of life.
- C) declined, but the quality of life has increased.
- D) declined, and so has the quality of life.

188) Eve and her three college friends enjoy perfumes. As a special gift to each of them last holiday season, she found a way to make scented candles with each friend's favorite perfume scent. The three friends loved her gift idea and encouraged Eve to create more and sell them online. Recently, she is filling orders from her website, and turning a profit. Eve is proof that:

- A) me-too businesses work.
- B) when you successfully fill a market need, you can make money.
- C) the Internet is a way to distribute just about anything.
- D) the cost of supplies to make candles is relatively cheap.

189) Green Goddess Developers is a large nationwide landscape company with home offices in Libertyville, IL. The local media often gushes over the gorgeous landscaping that surrounds the 30-acre headquarters. At the back end of the complex are several large warehouses and garages that hold large equipment. The grounds surrounding the warehouses look like a park. Across the street from the garages are several shops and businesses. The CEO, Patty, often talks about how thankful she is that the town permits her to store equipment at that site, and vows to always maintain the premises for her neighbors, not to mention that she asks 100 employees to come to work there every day. Which of the following statements describes Patty's business philosophy?

- A) Patty is a nice woman whose company made a lot of money, so she is willing to spread it around.
- B) Patty understands that even though it may cost a little more, stakeholder considerations are very important if you want your business to thrive.
- C) Patty is more concerned about town politics than about the company profits. She should ask his employees if they would rather have that money in their pockets than on the lawns.
- D) Patty is taking a business risk that her trucks and equipment will not make too much noise as they enter and exit the garages.

190) Which of the following entails the greatest amount of risk?

- A) Working for the government
- B) Working for a large business
- C) Working for a small business
- D) Starting a business

191) The resources that contribute to the creation of wealth are known as _____.

- A) production coefficients
- B) factors of production
- C) production technologies
- D) production aggregates

192) Which of the following is a factor of production?

- A) Bonds
- B) Money
- C) Knowledge
- D) Service

193) As a factor of production, the term *capital* includes:

- A) Stocks and bonds issued by corporations.
- B) Natural resources such as land and water.
- C) Tools, machinery, and buildings.
- D) Services provided by the government that enable businesses to be more productive.

194) Two factors of production that seem to contribute the most to a nation's ability to create wealth are:

- A) land and labor.
- B) land and capital.
- C) entrepreneurship and labor.
- D) entrepreneurship and knowledge.

195) _____ is/are the external and internal circumstances that surround the business.

- A) The business environment
- B) The factors of production
- C) The business corral
- D) The business disciplines

196) Entrepreneurs weigh the differences between the benefits of starting a business and those things that they are likely to forego because they choose to work for themselves. Such things they are likely to pass up on are:

- A) the freedom to make their own decisions.
- B) local government benefits such as enterprise zone tax credits.
- C) employer-paid benefits such as paid vacation and health insurance.
- D) tickets to sporting events that trading partners may provide.

197) Which of the following is a benefit of owning your own business?

- A) Freedom to keep the profits from your business
- B) Government-supported health insurance
- C) More camaraderie with employees
- D) Shorter work hours

198) Mary Kay owns a nursery. The trucks, handcarts, and forklift she purchased for the business are called _____ investments.

- A) natural resources
- B) intangible resources
- C) current asset
- D) capital

199) As you consider the factors of production, which of the following did management theorist Peter Drucker believe to be one of the most important contributing factors to increasing our nation's wealth?

- A) Land
- B) Labor
- C) Knowledge
- D) Capital

200) When we compare the factors of production in wealthy versus poor nations, we find

- A) poor nations have plenty of land and knowledge, but very little labor.
- B) poor and wealthy nations (both) have an abundance of knowledge; it is the land that varies, with rich nations always having more.
- C) wealthy nations have knowledge and entrepreneurial opportunities, while poor nations are often lacking in these areas.
- D) wealthy nations have land and labor, while poor nations have capital and entrepreneurship.

201) A nation progresses socially when it has good schools, clean air and water, and more. Which of the following statements addresses conditions for social progress?

- A) Social progress will evolve when capital is apportioned to everyone in equal amounts.
- B) A city, state, or nation's social progress needs the right business environment.
- C) The foundation for social progress is a handful of wealthy entrepreneurs willing to spread the wealth.
- D) Social progress can only improve when there is a strong labor pool to draw from.

202) Which of the following statements about factors of production is the most accurate?

- A) The five factors of production are energy, capital, labor, leadership, and money.
- B) Wealth creation in poor nations is slowed by chronic shortages of labor.
- C) Each of the factors of production is equally important in creating wealth.
- D) Entrepreneurship and knowledge are the most important in creating wealth.

203) Cantlivia is a small and poor nation, but its current prime minister has a desire to create more wealth for her citizens. The prime minister has received recommendations from several of her advisors. Which of the following recommendations is likely to create the most wealth for Cantlivia?

- A) Acquire more land by invading a neighboring country that is even poorer and weaker than Cantlivia.
- B) Use foreign aid from other nations to purchase more tools and machinery.
- C) Establish a business environment that promotes and rewards entrepreneurship.
- D) Establish barriers to trade to protect Cantlivia businesses from foreign competition.

204) Brendan and Sean combined their love of baseball with a business venture. They purchased a small cart and began selling memorabilia outside of their hometown stadium. Their first year went well, but the past two years have been quite a struggle. Due to poor economic conditions and the team's horrible record, ticket sales at the stadium are down, which has significantly hurt their sales as well. As a recent business graduate, you explain to Brendan and Sean that

- A) this type of business is always high risk because it is seasonal.
- B) the business does not fill a sufficient need for most people.
- C) environmental circumstances are dynamic and tough to control.
- D) social entrepreneurs are currently getting most of the attention.

205) Pete is a recent finance graduate who has two passions: music and finance. Upon graduation, he was offered an opportunity to join a struggling rock band with a lot of potential, or a job at a large well-established financial services company. By joining the band, he will forego which of the following?

- A) Added benefits such as health insurance provided to employees of large corporations.
- B) The freedom to contribute as an innovator in his work environment.
- C) Long hours at work, while he learns the business and contributes to making it successful.
- D) Job protection.

206) China is a nation with a vast amount of land and a very large population. Another characteristic of this nation is its people's affinity for saving money. Referring to the five factors of production, the government of China has made significant progress in building its business environment by focusing on factors that needed improvement. Its best strategy would be to

- A) increase the supply of labor.
- B) increase sources for capital.
- C) increase entrepreneurship.
- D) encourage neighboring nations to provide the necessary land for business development.

207) Taxes and government regulations are part of the _____ environment of business.

- A) economic and legal
- B) competitive
- C) social
- D) technological

208) Businesses favor:

- A) minimal government spending because it keeps taxes to a minimum.
- B) more government services because it minimizes tax consequences.
- C) maximum government spending because it raises business profits.
- D) less government spending because it lowers business profits.

209) In order to create more wealth and provide better services, some nations recognize that

- _____.
- A) raising taxes benefits all businesses.
 - B) a good strategy is to minimize interference with the free exchange of goods and services.
 - C) restricting trade with other countries always helps domestic businesses.
 - D) taking control of privately owned businesses and making them government-run will decrease taxes and improve the lives of everyone.

210) In countries where businesses are government owned,

- A) there is less incentive to work hard.
- B) the right amount of each good is produced.
- C) profits tend to be higher.
- D) the quality of goods is high but profits are low.

211) High tax rates tend to:

- A) promote economic development.
- B) make a nation's currency tradable.
- C) discourage entrepreneurship.
- D) reduce the amount of money created by the government.

212) Contemporary governments promote business development by

- A) increasing business regulations.
- B) providing government ownership of businesses.
- C) permitting businesspeople to conduct business without the use of contracts.
- D) establishing a currency that's tradable in world markets.

213) Which of the following policies would tend to foster entrepreneurship?

- A) Minimize taxes and regulations.
- B) Promote more regulations to protect the environment.
- C) Develop policies to reduce corruption between individuals.
- D) Encourage public ownership of businesses.

214) When corruption is present in the business environment:

- A) company leaders may threaten competitors and minimize competition.
- B) factories are easier to build without a government permit.
- C) it promotes fair competition.
- D) laborers can make more money.

215) Which of the following government policies would be **least** likely to encourage entrepreneurship?

- A) Passage of laws that enable businesspeople to write enforceable contracts
- B) Establishment of a currency that is tradable in world markets
- C) Establishment of strict regulations specifying exactly how products should be made to ensure safety and affordability
- D) Passage of laws that eliminate corruption in government and business

216) Blockbuster stores shuttered their doors but Netflix is still growing. Both companies participated in the video rental business. Netflix evaluated the lifestyle needs of video customers, understanding that time, family, and work obligations called for more convenient methods to receive video entertainment. Netflix embraced the opportunity to stream videos directly to customers and create their own content. The company also managed to keep customer costs down, by passing along the savings it realized in labor. Blockbuster did not pay enough attention to competitor movements, permitting Netflix to quickly capture video market share. Which external environment probably had the **least** effect on Netflix's success?

- A) Social environment
- B) Competitive environment
- C) Economic and legal environment
- D) Technological environment

217) A *New York Times* article about Bernie Madoff and his illegal Ponzi scheme stated, "When money goes global, fraud does too." Although the goal of investors who trusted Madoff's investment company was to earn the highest return possible on their investments, they turned a blind eye toward the fact that some of those returns were too good to be true. Individual investors, companies, and even charities lost large sums of money by investing with Madoff's company. Which of the following statements relates to this story?

- A) The unethical behavior of one company had a worldwide ripple effect that can impact the well-being of an economy.
- B) Too much regulation caused the capitalistic nature of Mr. Madoff's business model to fail.
- C) People lost money because of the fluctuations in world trading currencies, questioning the legitimacy of trading abroad.
- D) Investors did not sign contracts with Mr. Madoff's company. The government can only protect individuals and companies who sign enforceable contracts.

218) Chao sells custom bicycles. He buys several bike parts including wheels and tires from Upright Strides, Inc. Although several government-supported regulations help Chao in his business, regulations that make it easy for his business to enjoy good vendor relationships are

- A) lower taxes that business-to-business customers pay to each other.
- B) laws that permit minimal corruption in banking institutions.
- C) laws that permit small businesses to use the government as an intermediary when doing business with other small businesses.
- D) laws that support enforceable contracts between firms.

219) Walter Waterson owns a lawn irrigation system business. He manages the installations and maintenance of these systems. Several customers are golf courses, but he serves a large group of residential customers as well. When he started the business 10 years ago, he promised to always operate within the legal limits of the law, but lately, the competition is eating him alive. Large competitors have hired illegal immigrants to perform the manual labor, and they do not pay taxes on these employees—they just pay them in cash at the end of the week. Employment taxes are a burden to him. Walter does not want to hire illegal workers. There's a risk if you permit an illegal worker to drive a truck; or, if he/she has an accident on the job. You have just studied business ethics in your class. You inform Walter that

- A) taxes only need to be paid for the owners.
- B) he is not only taking a chance that a bigger problem may occur, he is indirectly setting the ethics code for his business.
- C) small businesses may not be able to worry about ethics codes. These types of documents are better suited for big business.
- D) it is not unethical to try to better the lives of others. Everyone needs jobs.

220) The emergence of an information-based economy are important parts of the _____ environment in which businesses operate.

- A) economic and legal
- B) technological
- C) competitive
- D) global

221) Technology affects people in:

- A) all industries.
- B) most industries.
- C) information technology industries with the exception of agriculture.
- D) primarily high-income countries.

222) Employers provide tools and technology for their employees in order to:

- A) increase the cost of production and profitability.
- B) improve their efficiency and productivity.
- C) reduce corruption in business and eliminate scandals.
- D) encourage the private ownership of businesses.

223) Efficiency means:

- A) producing the desired result.
- B) producing goods and services using the least amount of resources.
- C) the amount of output you generate given the amount of input.
- D) the buying and selling of goods using the most amount of resources.

224) _____ refers to the amount of output generated with a given amount of input, e.g., the number of pizzas produced per worker per hour.

- A) Efficiency
- B) Technology
- C) Telecommuting
- D) Productivity

225) _____ means producing the desired result.

- A) Effectiveness
- B) Technology
- C) E-production
- D) Productivity

226) _____ means producing items using the least amount of resources.

- A) Efficiency
- B) Technology
- C) E-production
- D) Productivity

227) The two main types of e-commerce are:

- A) online and offline.
- B) EDI and EDC.
- C) wholesale and retail.
- D) B2B and B2C.

228) When businesses sell to other businesses online, these transactions are known as:

- A) B2C transactions.
- B) e-wholesale transactions.
- C) B2B transactions.
- D) intermediate e-commerce transactions.

229) Companies that sell goods to consumers online are engaging in _____ transactions.

- A) B2C
- B) IOU
- C) B2B
- D) Y2K

230) The series of lines on a product packaging that the cashier scans when you check out at a grocery store or discount store is called a

- A) bar code.
- B) zip code.
- C) scan code.
- D) laser code.

231) An electronic storage file where firms keep customer information is known as a(n)

- A) MP3 file
- B) management information system
- C) database
- D) e-mail server

232) _____ is illegally obtaining and illegally using private information about a person, such as using someone's credit card number.

- A) Petty theft
- B) Identity theft
- C) Banking theft
- D) Online theft

233) One advantage of a database is it

- A) permits a retail store to directly gather information on the customers who do business with its competitors, so it can target promotional materials to those people.
- B) creates efficiency in that the store can quickly replenish items that are purchased.
- C) prevents identity theft.
- D) prevents stores from exchanging customer information with each other.

234) Which of the following is an advantage of utilizing technology?

- A) Technology increases the cost of production.
- B) Technology reduces the need for a marketing plan.
- C) Productivity increases.
- D) Management becomes isolated from the demands of stakeholders.

235) Which of the following best describes the main difference between B2B and B2C transactions?

- A) B2B transactions involve transactions where the buyers and sellers are both businesses, while B2C involves transactions between businesses and consumers.
- B) B2B transactions focus on financial transactions while B2C e-commerce focuses on the sale of manufactured goods.
- C) B2B transactions refer to business between nonprofit organizations while B2C e-commerce is carried out by business firms seeking to earn a profit.
- D) B2B transactions involve sales in foreign markets while B2C e-commerce is restricted to domestic markets.

236) In recent years, businesses in general have experienced a lasting impact due to the emergence of

- A) motor-related technologies
- B) technologies related to brain studies
- C) counterfeit technologies
- D) information technologies

237) NetKnowledge is an online company that provides support services for businesses that need help in setting up and maintaining their websites. NetKnowledge is an example of a company that is engaged in _____ e-commerce.

- A) B2C
- B) N2Y
- C) Y2K
- D) B2B

238) Lux Ladies, Inc., is a company that specializes in expensive and unusual gifts for all occasions. It keeps a large file of information on all of its regular customers, including names, addresses, and type of gifts they have ordered in the past, and the size and frequency of their orders. The electronic file which stores this information is a(n)

- A) spreadsheet.
- B) MP3 file.
- C) PERT file.
- D) database.

239) New orders are coming in quickly for SmartTech, and management is confident that new contracts will take them through the next couple of years. The company has started investing again, but not in people. The number of employees is the same as when the company and its competitors faced the Great Recession. Most likely due to _____, the company is producing more product and services with less people.

- A) the lack of skilled labor
- B) new competition
- C) social changes
- D) technological advancement

240) Which of the following predictions about the impact of e-commerce on traditional businesses is the most accurate?

- A) E-commerce will have little impact on most traditional businesses, because only a few types of products can be sold effectively online.
- B) Traditional brick-and-mortar firms will enter the e-commerce market by creating their own websites.
- C) E-commerce will prove to be very successful in competing against traditional firms in B2C markets, but will have much less success in B2B markets.
- D) Brick-and-mortar businesses will cease to exist within 20 years.

241) Tyler Brown recently noticed that he was seeing more Facebook advertisements than he had in the past even though he had not requested any of them. Which of the following best explains why this is happening?

- A) Tyrell was a victim of identity theft.
- B) Tyrell gave his personal information to a business, which then traded it to other companies, and these companies then began targeting their advertisements.
- C) All businesses routinely have all customers' personal information.
- D) Tyrell's accountant gave his information to the marketers.

242) Klara wants to compare the price of a wallet she saw at Nordstrom Rack with other stores that may have the same wallet. She locates the product on three different websites, including Amazon. Klara's quest is an example of how customers are using _____ to solve problems.

- A) price shopping
- B) databases
- C) information technology
- D) social networking

243) Sean McGowan renewed his membership at Bargain Barn. Shortly after renewing the card, Sean started receiving calls from collection agencies claiming that he owed money. He quickly learned that another Sean McGowan also owned a Bargain Barn card and missed many payments. Bargain Barn had linked Sean's personal information with the other Sean McGowan's personal information. Sean experienced

- A) buyer's remorse.
- B) database fraud
- C) information trafficking
- D) identity theft

244) Opportunities and advancements in the technological environment during the past 20 years have opened the doors for a number of products that enhance the lives of consumers. Identity theft and other forms of cybercrime are also by-products of these technological advancements. Which of the following statements describes a form of identity theft?

- A) Smartphone apps that permit the consumer to price compare by scanning the barcode of a product, such as a cell phone.
- B) Hacking into a business's database to obtain customer credit card numbers, and then selling those numbers to others for use.
- C) GPS technology that permits you to find the exact location of a person, by entering that person's phone number into your application.
- D) The application of *cookies* to a consumer's computer system that identify his/her purchasing patterns.

245) Hussein got a call yesterday from First Bank, the company that issued his credit card inquiring about an \$105.00 charge made in Buenos Aires, Argentina. Upon learning that Hussein was in Detroit and had not made this purchase, the bank quickly took steps to cancel the card and issue a new one. Given the circumstances that Hussein's credit card number had an illegal transaction, he may also want to

- A) check his computer's firewall to make sure it's working.
- B) cancel his account and eliminate credit cards from his life.
- C) change his passwords and store them in a password manager.
- D) diversify his spending habits by using one of several credit cards when making purchases.

246) In today's competitive environment, good value means:

- A) making products with zero defects.
- B) superior quality that translates into durable products.
- C) offering the latest trends without seeming like you are over the top.
- D) providing quality products and services at competitive prices.

247) Successful businesses are keenly focused on their

- A) customers.
- B) managers.
- C) creditors.
- D) bureaucrats.

248) Empowerment means:

- A) giving employees the authority to make decisions.
- B) making certain that employees always defer to management when making decisions.
- C) hiring employees that do not require training due to the costly nature of this activity.
- D) asking employees to write the policies which govern their jobs.

249) Empowerment requires managers to focus more on _____ lower-level employees.

- A) directly supervising
- B) training
- C) simplifying the jobs of
- D) controlling and correcting

250) To implement a policy of empowerment, the organization will restructure so that:

- A) managers have more responsibility and employees learn to follow directions.
- B) employees assume more responsibility.
- C) workers agree to work overtime without extra pay.
- D) an entire level of management is removed from the organization.

251) Which of the following statements about the competitive environment is most accurate?

- A) Firms that produce a quality product will always succeed in the competitive marketplace.
- B) Traditional firms will be unable to successfully compete against the new online firms unless they immediately create a way to reach customers through the Internet.
- C) Firms that empower their employees will continue to perform poorly in the competitive environment.
- D) Companies now have to offer both high-quality products and outstanding service at competitive prices.

252) In order to compete well and gain market share, contemporary businesses are changing to be more

- A) customer-driven.
- B) cash-driven.
- C) management-driven.
- D) production-driven.

253) Juan is a salesperson for Floor Masters, Inc. He really appreciates the amount of freedom and authority the company gives its sales people in order to better meet the needs of customers. Juan's experience suggests that Floor Masters practices

- A) centralized management.
- B) fast response theory.
- C) enfranchisement.
- D) empowerment.

254) Gina is working as a marketing trainee for a streaming video company. Her boss called a meeting for next week with one thing on the agenda: "Bring with you your ideas about how we can gain a competitive advantage." Gina plans to provide the following response:

- A) Create a management-driven environment with lots of employee training.
- B) Create a customer-driven environment where we constantly try to create customer value.
- C) Restructure the organization so that there is always a manager on duty to chat with online customers who are having problems with their orders.
- D) Always match the promotions of our competitors; price is the only thing customers care about.

255) Tabitha called in a food order to feed her office team. When she arrived to pick up, it was not what she ordered. The store associate quickly made it right, and offered an extra dozen bagels to make up for the mistake. There was no need to check with the supervisor, as the employee was _____ to make decisions that translate into good customer service.

- A) structured
- B) empowered
- C) asked by the customer
- D) deputized

256) Which of the following statements best describes how firms must treat their frontline workers in order to remain competitive? Frontline workers must be _____.

- A) empowered with the authority to respond quickly to the unmet needs of customers
- B) closely supervised to reduce the risk of product liability and discrimination lawsuits
- C) eliminated and replaced with automated equipment whenever possible
- D) relieved of any burden to make a customer decision

257) Markus is in charge of production for a family-owned company that makes and sells kitchen utensils. He has stated that speed of delivery is the most important factor for success in the competitive environment. Which of the following would be the best response to Markus?

- A) You are right on target, Markus. Time is money.
- B) You are the man, Markus. As long as our price is competitive, speedy delivery will win in today's changing marketplace.
- C) Well Markus, speed isn't everything. What would exceed our customers' expectations? Some consumers may put more importance on high quality and/or lower prices.
- D) Dude, you couldn't be more wrong. Quality is the name of the game. He who has the best product will win in the competitive environment.

258) The statistical study of human population to learn its size, density, and characteristics is called

- A) psychographics.
- B) econometrics.
- C) demographics.
- D) geometrics.

259) Businesses collect _____ information on where people live, what they buy, and how they spend their time.

- A) geometric
- B) econometric
- C) demographic
- D) anthropologic

260) Diversity is more than recruiting and keeping minorities. Diversity means appreciating and understanding other differences in our customers and in our workforce. The best description of these differences is:

- A) people with disabilities, people with different sexual orientations, religious preferences, and even personality differences such as extraverts and introverts.
- B) gender roles.
- C) surface-level things such as green eyes versus brown eyes.
- D) racial differences and gender differences.

261) Efforts are under way to serve the needs of a diverse population. Diversity means:

- A) selling products to immigrants.
- B) dealing sensitively with workers and cultures around the world.
- C) providing government programs such as free health care for illegal and legal immigrants.
- D) meeting employment quotas so that diverse groups are always represented in your workforce.

262) Due to population shifts,

- A) businesses that cater to older consumers will see higher growth.
- B) businesses that cater to older consumers will see slower growth.
- C) businesses that sell electronic devices will see a significant decline.
- D) health care will emerge as the only business sector that will grow.

263) Which of the following industries will most likely benefit from an aging population?

- A) Financial services to help clients plan for their education
- B) Home health care businesses
- C) Children's day-care centers
- D) Auto industry

264) The Social Security system:

- A) continues to burden businesses due to the fact that businesses must provide and pay for this benefit for their employees.
- B) met the needs of our nation when it was first introduced, but needs an overhaul.
- C) will continue to serve the needs of U.S. citizens into the distant future, due to the fact that there are so few retirees placing a strain on it.
- D) is failing because the U.S. government failed to invest the money that employees contributed.

265) People over 65 years old represent

- A) the unemployed generation.
- B) the single-parent family generation.
- C) a potentially lucrative market.
- D) a group that has never contributed to Social Security.

266) Businesses are supporting single-parent families with:

- A) Social Security benefits.
- B) a more lenient welfare system.
- C) more flexible work benefits such as flextime and family leave.
- D) limited benefits due to the declining numbers of these families.

267) Which of the statements about demography is most accurate? Demographic studies:

- A) focus on factors that have great political relevance, but little relevance to business firms.
- B) suggest that the number of single-parent families is declining.
- C) provide businesses and individuals with insights into business and career opportunities for the future.
- D) are an important source of information about changes in health patterns.

268) Which of the following business policies would most likely help a single-parent family?

- A) Requiring the employee to work regularly scheduled hours each day
- B) Allowing sick leave to be used only if the employee is ill
- C) Requiring education outside of regular business hours to help the employee advance
- D) Allowing family leave and flextime

269) The immigrant population (both legal and illegal) is having the most dramatic effect on

- A) car and truck makers.
- B) mining and minerals industry.
- C) schools, hospitals, and other services industries.
- D) ice cream and confection industry.

270) Retired people will be draining the U.S. economy of wealth. This is due to

- A) the fact that most have smoked all their lives and now are accumulating large healthcare bills.
- B) the fact there are not enough workers in subsequent generations to support the ongoing drain of older persons into the Social Security system.
- C) their lack of interest in supporting restaurants, resorts, educational institutions, and service-intensive companies.
- D) the fact that they refuse to use current information technology to improve efficiency.

271) If you were to discuss and analyze the social changes affecting the future of business, which of the following statements should be part of that conversation?

- A) It is becoming more difficult to provide expert pre-natal care for women, resulting in a negative impact on the future of childbirth.
- B) The increase in older citizens may impact an employee's take-home pay if programs such as Social Security will need to be funded at a higher level. Skilled employees may require higher wages to make up the shortfall.
- C) With less money to spend, older Americans over 65 will no longer require transportation, entertainment, education, and lodging. This is highly likely to negatively impact these industries.
- D) Business taxes are very likely to spike due to the fact that welfare laws are making it relatively easy for single parents to stay home with their children, rather than find jobs.

272) Casey is looking into opening a day care in her community. She is aware of many single-parent families that need a place for their children to stay while they work, but she is concerned about the long-term prospects for such a business. Casey thinks the future of her day care will depend on whether birth rates and the number of single-parent families keep growing. These concerns illustrate how businesses can be affected by _____ trends.

- A) econometric
- B) demographic
- C) holographic
- D) psychometric

273) HealthLink Hospital is looking into introducing a flextime program for its employees. A group of workers who would probably benefit from flextime is

- A) workers who do not have access to computers at home.
- B) workers who have little self-motivation to work eight-hour days.
- C) frontline workers who frequently go out to meet with home furnishing designers.
- D) single-parent families.

274) Pets on the Run, Inc., a mobile pet care company, is planning for the future. As a business student who has studied social trends, which of the following statements reflects the need for Pets on the Run's service in the future?

- A) Mobile pet care will not be needed because the majority of people are working which means that nobody is home.
- B) People will always prefer to take their pets to the veterinary clinic and groomer.
- C) The aging population will be a sizeable market for this firm.
- D) People who would require this service would be higher income individuals. Retired people would not be a market for this firm because they do not have money to care for pets.

275) The global environment:

- A) is a new frontier.
- B) is far reaching and affects all the other business environments.
- C) is shrinking.
- D) has not affected the United States due to its strong gross domestic product.

276) The threat of terrorism more often _____ the cost of operating a business.

- A) increases
- B) decreases
- C) stabilizes
- D) destabilizes

277) An increase in global trade will:

- A) increase prices.
- B) decrease jobs.
- C) increase political instability.
- D) increase global competition.

278) Globalization

- A) has greatly improved living standards around the world.
- B) has significantly reduced living standards around the world.
- C) has opened doors to only a handful of markets.
- D) has greatly changed companies that hire people to sell products, but not companies that hire people to provide services.

279) Greening refers to

- A) the need for more carbon dioxide in our air.
- B) firms acquiring more greenbacks (U.S. dollars) from world trade.
- C) finding ways to save energy and lessen the harm on our environment.
- D) the agricultural industry's push to develop and produce new green vegetables to feed the world.

280) Efficiency in distribution systems around the world has led to

- A) increased world trade.
- B) decreased world trade.
- C) decreased international competition.
- D) reduced standards of living around the world.

281) Airline companies around the world are experiencing increased costs in part due to

- A) decreases in the cost of fuel.
- B) decreasing world trade.
- C) the threat of terrorism.
- D) lack of interest in flying.

282) War and terrorism in many parts of the world should lead to

- A) a decrease in warring nations.
- B) consumers spending more because they feel more patriotic.
- C) an increase in prosperity and peace throughout the world.
- D) consumer and economic hardship due to increased military spending.

283) World trade has both benefits and costs. Which of the following statements best attests to this fact?

- A) The U.S. economy and all businesses that participate in this economy were negatively impacted by recent wars.
- B) The standard of living for citizens in developing nations has significantly decreased due to globalization.
- C) Economists are convinced that global job creation will never occur if our politicians support world trade.
- D) Large companies and small companies agree that the green movement is a global issue. Firms are embracing opportunities to bring value to consumers by creating green products and services.

284) The green movement is

- A) a trend that started with the U.S. government.
- B) concerned with depletion of natural resources.
- C) developing more green food products to feed the world's poor.
- D) our concern with the fact that everywhere we look, things are remaining green for longer periods of time.

285) The threat of terrorism

- A) benefits most businesses because just about all companies contribute toward averting these threats.
- B) will certainly affect companies that participate in global trade, but most large U.S. companies do their business domestically.
- C) has increased the quality of life of most people because companies employ more workers when the threat is high, and workers help companies increase profits.
- D) is costly to most firms because it is costly to governments who increase taxes to pay for added protection.

286) According to the box, "Hollywood Climbs the Great Wall," Chinese investors are not only distributing Hollywood films in their home country, they are also

- A) producing films to distribute in South America.
- B) buying companies that manufacture cameras and sound equipment.
- C) creating theatrical education programs in the nation's universities.
- D) investing in American entertainment companies and working to make China a moviemaking power.

287) Tomas recently graduated with honors from his college. He has bragged to his friends that his academic performance has prepared him so well for a successful career that he can find a job with ease and forget school or training in his future. In evaluating the future of the workplace, Tomas is

- A) exactly right. His past performance should carry him to success.
- B) completely wrong. Studies show that a college education has little to do with success.
- C) overconfident. Global competition means that continuous learning will be needed in the future to adapt to rapid changes.
- D) probably right. Specialized training today is a key to continued success in the future.

288) Dennis and Donna recently moved to Kansas on a three-acre site. They purchased their home within biking distance to the hospital where they work, and their bikes have room for groceries if they need to purchase food on the way home, although they plan to grow some crops on their own. Dennis and Donna are examples of a growing number of people who

- A) have developed a health-conscious attitude.
- B) want to change their lifestyle to be more in tune to saving energy.
- C) dislike urban centers and wish to live in the country.
- D) stay away from urban areas due to increased threats of terrorist attacks in those localities.

289) Which of the following statements describes a recurring theme about today's ecological environment?

- A) Most people agree that there is strong evidence that the temperature of the planet is going down.
- B) Smart businesses know that green business is currently a trend and they should proceed with caution because most green initiatives are more costly than wars and terrorism.
- C) There is a strong push by customers for businesses to develop products and services that clearly save energy.
- D) Clearly, the greening issue is an American trend that has not captured the attention of the international business community.

290) Bart Broekelman recently returned from Afghanistan where he was a member of the highly skilled special operations forces. He is now back home in the United States where he uses the G.I. Bill in order to go to school. This is one example of

- A) how an event such as a war educates young people about conditions abroad.
- B) the cost of war.
- C) the benefits of war on education.
- D) a squeeze on employer benefits.

291) Since the 1800s, the U.S. has evolved

- A) straight from an agrarian economy to an information technology economy.
- B) from a business to business economy to a business to consumer economy.
- C) from an agrarian economy to a manufacturing economy to a service-oriented economy.
- D) from a manufacturing economy to a service economy, to a cottage economy, and now we are trending back to an agrarian economy.

292) Businesses that produce and sell tangible products such as steel and machines are part of the

- A) manufacturing industry.
- B) knowledge-based industry.
- C) service industry.
- D) production sector.

293) The service industry represents about _____ of the value of the U.S. economy.

- A) 30%
- B) 50%
- C) 60%
- D) 80%

294) Health care, insurance, recreation, and other intangible products are provided by the

- A) information-based sector.
- B) service industry.
- C) industrial sector.
- D) manufacturing industry.

295) Since the beginning of the 1900s, the agricultural sector of the United States has:

- A) seen the number of family farms more than double.
- B) become less and less competitive in the global economy.
- C) produced a consistent output per farm.
- D) experienced a significant drop in employment, mainly because of tremendous improvements in efficiency.

296) In recent years, almost all new job creation in the U.S. has occurred in the _____ sector.

- A) service
- B) manufacturing
- C) agricultural
- D) telecommunications

297) The new era of business is likely to be dominated by the

- A) service sector.
- B) information-based sector.
- C) manufacturing sector.
- D) continued decline in productivity.

298) Appliance repair firms, tax consultants, law firms, and insurance companies are all business firms that are part of the _____ sector.

- A) production
- B) management
- C) neo-industrial
- D) service

299) Manufacturing firms in the U.S. have consistently been laying off workers. The best explanation of this trend is that

- A) firms have been trying to weaken unions by reducing their reliance on labor.
- B) workers in the U.S. have become less productive and are no longer able to compete in the global economy.
- C) firms in many industries have become so efficient that they need fewer workers.
- D) the economy has been in a prolonged depression that has lasted more than a decade.

300) Which of the following best describes recent job growth in the service sector?

- A) The service sector has generated almost all new jobs in the American economy since the mid-1980s, but the rate of job growth in services has slowed in recent years.
- B) Jobs in the service sector have increased slowly over the past decade, but most new jobs are created in the manufacturing industries.
- C) Employment in the service sector has declined in recent years, and this decline is expected to continue.
- D) There has been little change in the number of jobs in the service sector in recent years; however, employment is expected to increase rapidly.

301) According to the box, "Services Expand the Circular Economy," technology is helping turn products into services by

- A) restricting what customers can and cannot buy for personal use.
- B) producing items that are designed to reach obsolescence quickly.
- C) offering new ways to access items like movies or music and by adding sensors to allow companies to develop new business models.
- D) developing more disposable items.

302) Which of the following organizations is an example of the goods-producing sector of the economy?

- A) Samsung Electronics
- B) Princeton University
- C) Bank of America
- D) Barnes Hospital

303) Certain industries of the U.S. economy, such as farming and heavy equipment manufacturing, have experienced a significant decline in employment. Which of the following best explains this job loss?

- A) The cause is a decline in the productivity of labor in these industries.
- B) Workers lost these jobs because technological advances increased productivity.
- C) The U.S. economy cannot compete in these industries any longer.
- D) Government regulations have eliminated profit opportunities in these industries.

304) Nairi is an information savvy, 20-something who is trying to select between two marketing job offers. She can either join a company that makes candles and other home scents, or she can join a company enhancing the LTE phone service. She is quite impressed that the home scent business is growing as the economy is starting to bounce back. She is also aware of

- A) declines in the telecommunications business now that new cell phone service companies are springing up everywhere.
- B) a decline in the domestic hardware market due to older Americans losing interest in keeping up their living quarters.
- C) an information-based global revolution that might make her career at a telecommunications company more lucrative in the long run.
- D) an increase in the price of the actual cell phones must indicate that there is still a great demand for phones.

305) Describe three ways that governments can foster entrepreneurship and encourage the creation of wealth.

306) Describe how businesses can use technology to be more responsive to customers.

307) Competition among businesses has never been greater. Identify and describe two ways that businesses can become more competitive.

308) What is demography? Identify two demographic trends in the United States and discuss how they will impact U.S. businesses.

309) Describe what we mean by greening and thinking green. List five ways that people and businesses are participating in the green movement. List business opportunities that may emerge from this movement.

310) Trace the evolution of American business. Identify the key trends, and discuss the implications these trends have for the future.

Mini-Case

Eli Moneybags works for Second Commercial Bank, one of the largest banks in the Southwestern U.S. He is a loan officer, specializing in mortgages. Tio Jaime, Eli's favorite (and wealthiest) uncle, passed away last month and left him a sizable amount of money. Eli is looking at the best way to invest his newly acquired wealth. He is considering many options, ranging from simply putting the money into a savings account to the possibility of starting his own business. Although his bank job pays well and offers pleasant working conditions, Eli is frustrated because he has little freedom or flexibility to deal with customers since every decision he makes must be approved by his supervisor. He is also a bit bored and looking for a new challenge. He thinks he might get a lot of satisfaction from owning his own business. Eli has not made a definite decision yet, but has talked to a lot of people searching for a good idea for a new business. If he can come up with an idea he likes, he might just quit his current job and use his inheritance to go into business for himself!

311) As he starts his research, Eli notices that some opportunities appear to be riskier than others. When considering various opportunities, Eli should keep in mind that

A) he will be better off picking a low-risk business opportunity, since the safest ones are usually the most profitable as well.

B) even though some opportunities appear riskier than others, the level of risk actually varies little from one opportunity to another.

C) high-risk business opportunities often have the potential for high returns as well.

D) government regulations are in place to protect investors and entrepreneurs from failure, so there is no need to worry about risk.

312) Eli's frustration with his lack of freedom at work indicates that Second Commercial

- A) prefers the use of cross-functional teams rather than individual initiative.
- B) has not adopted a strategy of empowerment.
- C) knows that the best way to ensure good customer service is to closely monitor its lower-level employees.
- D) is trying to please customers as well as other stakeholders.

313) Two of his friends approached Eli with a proposal to start a language school. Eli is fluent in English and Spanish, and also has an education degree. He is strongly considering the idea but wants to know if there is a growing demand for his services. He learns that an important demographic trend is

- A) the service sector is likely to decline in significance in the next few years.
- B) the number of young children in the U.S. will decrease significantly over the next few years as the population of the country levels off.
- C) the number of immigrants from South and Central America is increasing steadily in his area and across the nation. Professionals in hospitals and schools need to know how to speak Spanish. Immigrants need to know how to speak English.
- D) the number of retirees is decreasing, making way for a younger generation.

314) As he explores his options for starting a new business, Eli has looked into the tax implications and government regulations that he would encounter. He wants to maintain an office in a different location from his home. He has discovered that some nearby communities offer tax credits and lower taxes than his town. His decision will be influenced by the _____ environment.

- A) demographic
- B) technological
- C) socio-religious
- D) economic and legal

315) If Eli starts his own business, his firm's activities and policies will impact many different groups of stakeholders, including employees, customers, creditors, suppliers, and people living in the community where his business is located. Which of the following statements represents how Eli should deal with these various groups? Eli should

- A) take the needs of all of these groups into account, and try to satisfy each group as much as possible.
- B) concentrate on meeting the needs of his customers, since they are crucial to the success of his business, but ignore the needs of other groups in order to keep costs low.
- C) satisfy whichever group complains the loudest, using the "squeaky wheel gets the grease" philosophy.
- D) concentrate on maximizing his own profits and let everyone else look out for themselves.

Understanding Business, 12e (Nickels)

Chapter 01 Taking Risks and Making Profits within the Dynamic Business Environment

1) Businesses provide goods, jobs, and services to others.

Answer: TRUE

Difficulty: 1 Easy

Topic: Definition of Business

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

2) Businesses seek to earn a profit by providing goods and services to others.

Answer: TRUE

Difficulty: 1 Easy

Topic: Definition of Business

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

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3) Revenue is the amount a business earns above and beyond what it spends for expenses and costs.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

4) Profit is the amount of money a business earns above and beyond what it spends for salaries and other expenses.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

5) Since all businesses make a profit, starting a business is not risky.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

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6) An entrepreneur risks time and money to start and manage a business.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

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7) If a business's costs and expenses are greater than its revenue, it will suffer a loss.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

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8) Profits of a business include the salaries paid to its employees.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

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9) Revenue is the total amount of money a business takes in during a given period by selling goods and services.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

10) Risk is the chance an entrepreneur takes of losing time and money on a business that may not prove profitable.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

11) The United States has one of the highest standards of living in the world.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

12) The term "standard of living" refers to the amount of debt people can incur on a given income.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

13) Health care availability, a clean environment, and good schools all contribute to a high quality of life.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

14) Maintaining a high quality of life requires the combined efforts of businesses, nonprofit organizations, and government agencies.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

15) Stakeholders are all the people who stand to gain or lose by the policies and activities of a business.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

16) Stakeholders include customers, employees, stockholders, suppliers, dealers, bankers, government officials, and environmentalists.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

17) Outsourcing means selling goods and services to people in other countries.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

18) Outsourcing has caused complications in many states where jobs have been lost to overseas companies.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

19) Insourcing refers to the practice of global companies setting up design and production facilities in the United States.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

20) The knowledge and skills learned in business courses are seldom relevant to students who work for nonprofit organizations or volunteer groups.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

21) Businesses and nonprofit organizations often strive to accomplish the same objectives.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

22) Nonprofit organizations use financial gains to meet stated social or educational goals of the organization rather than personal profit.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

23) The only real purpose of a business is to make money for entrepreneurs.

Answer: FALSE

Explanation: Businesses don't just make money for entrepreneurs. Businesses provide all of us with necessities such as food, clothing, housing, medical care, and transportation, as well as other goods and services that make our lives easier and better.

Difficulty: 2 Medium

Topic: Definition of Business

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

24) The only way a firm can increase its profits is to increase its sales revenue.

Answer: FALSE

Explanation: Revenues minus expenses = profits. A firm with stable or even declining sales might be able to improve profits by reducing expenses.

Difficulty: 2 Medium

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

25) The amount of profit or loss earned by a business can be found by subtracting the firm's expenses from its revenues.

Answer: TRUE

Explanation: Revenues minus expenses = profits.

Difficulty: 2 Medium

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

26) Nonprofit organizations are similar to for-profit businesses in that they often provide goods and services that satisfy the needs of society.

Answer: TRUE

Explanation: Businesses are not the only organizations that produce goods and services. Government agencies, public schools, and charities such as the Salvation Army provide goods or services, but are classified as nonprofit organizations since there is no profit motive.

Difficulty: 2 Medium

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

27) Unlike businesses, employees of nonprofit organizations are not required to learn the business skills of information management, marketing, or financial management.

Answer: FALSE

Explanation: In order to achieve their goals, nonprofit organizations need people with many of the same skills required by for profit businesses. For example, even though nonprofit organizations do not seek a profit, they still may deal with large sums of money and must keep financial records. Nonprofit organizations also need people with leadership, marketing, and information management skills.

Difficulty: 2 Medium

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

28) Business decisions should consider the interests of customers, employees, suppliers, government leaders, and stockholders.

Answer: TRUE

Explanation: All stakeholders stand to gain or lose by the policies and activities of a business. A major challenge of businesses is to improve profits while trying to accommodate the interests of all stakeholders.

Difficulty: 2 Medium

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

29) Businesses satisfy the demands of all stakeholders by balancing the demands of customers and stockholders.

Answer: FALSE

Explanation: Customers are interested in benefiting from the products and/or services produced by businesses. Stockholders are usually profit oriented. Stakeholders also encompass customers, suppliers, employees, stockholders, government organizations, environmental groups, and other organizations that are somehow affected by the business in question.

Difficulty: 2 Medium

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

30) An effort to please one group of stakeholders eventually pleases all stakeholders.

Answer: FALSE

Explanation: Balancing the demands of all stakeholders is a tremendous challenge for organizations. Trade-offs are common. Benefiting one group may have a negative impact on another group of stakeholders. For example, the need to stay competitive may call for outsourcing jobs to other countries, but that might do great harm to the community because many jobs would be lost.

Difficulty: 2 Medium

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

31) Insourcing creates new jobs, and helps offset the number of jobs being outsourced.

Answer: TRUE

Explanation: Many companies are setting up design and production facilities here in the United States. For example, Hyundai is doing design and engineering work in Detroit and producing cars in Montgomery, Alabama. Such insourcing creates many new jobs, and helps offset the number of jobs being outsourced.

Difficulty: 2 Medium

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

32) Sarah has started her own candy company. While she recognizes the risks involved in operating a business, she is still willing to invest her time, effort, and money in hopes of earning a profit. Sarah is an example of an entrepreneur.

Answer: TRUE

Explanation: An entrepreneur is someone who risks time and money to start and manage a business.

Difficulty: 3 Hard

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

33) Brandford Books, an eclectic bookstore in a Phoenix suburb, generated total revenues of \$17 million while incurring expenses of \$14 million. By the end of the year, Brandford Books earned a profit of \$3 million.

Answer: TRUE

Explanation: The profit a firm earns is found by subtracting total costs from total revenue. \$17 million – \$14 million = \$3 million

Difficulty: 3 Hard

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Analyze

AACSB: Analytic Thinking

Accessibility: Keyboard Navigation

34) Since businesses strive to earn a profit, their owners benefit at the expense of the rest of society.

Answer: FALSE

Explanation: In the pursuit of profit, businesses create jobs; produce goods and services that contribute to a higher standard of living; and pay taxes that support important government programs. Thus, businesses benefit others in society as well as their owners.

Difficulty: 3 Hard

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

35) Jose earned the same amount of money this year as he did last year. Thus, his standard of living must be the same as it was last year.

Answer: FALSE

Explanation: The standard of living refers to the amount of goods people can buy with the money they have. There are two factors that determine the standard of living: a person's earnings and the price of goods and services. If the prices of goods and services have increased or decreased over the past year, Jose's standard of living will change even if the amount of money he earns is the same.

Difficulty: 3 Hard

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

36) Christina quit her job in Chicago to take a less stressful position in a small town located in a scenic area. She now earns less money and has had to cut back on her purchases of material goods, but she has more free time and really enjoys the clean air and scenic beauty of her new home. Christina has accepted a lower standard of living in order to enjoy a higher quality of life.

Answer: TRUE

Explanation: The standard of living is the amount of goods and services people can buy with the money they have. The quality of life is a broader measure of social welfare that refers to the general well-being of a nation's citizens. If citizens benefit from a cleaner environment, more political freedom, or more leisure time, their overall welfare (quality of life) may improve even if they are not able to purchase more goods and services with their incomes.

Difficulty: 3 Hard

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

37) Political freedom, quality education, access to health care, and a clean environment are all factors that contribute to an improved quality of life.

Answer: TRUE

Explanation: The quality of life focuses on the general well-being of a society, and includes factors such as freedom, security, leisure time, and other factors beyond the goods and services people can buy with their incomes.

Difficulty: 3 Hard

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

38) People living in San Francisco, CA, on average earn more money than people living in Kansas City, MO. The citizens of San Francisco enjoy a higher standard of living than the citizens of Kansas City.

Answer: FALSE

Explanation: The standard of living depends on the price level as well as the income people earn. For example, as our text indicates, people in Germany and Japan may earn more money than Americans, but they have a lower standard of living because the prices they pay for goods and services are higher.

Difficulty: 3 Hard

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

39) The major difference between businesses and nonprofit organizations is that only businesses can increase the standard of living, while only nonprofit organizations can improve the quality of life.

Answer: FALSE

Explanation: The standard of living refers to the amount of goods people can buy with their money. Both businesses and nonprofit organizations can produce and distribute goods and services, so they both affect the standard of living. Similarly, both businesses and nonprofit organizations can have an impact on the physical environment, health care, and other determinants of the quality of life.

Difficulty: 3 Hard

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

40) A charitable organization, such as the American Red Cross or Salvation Army, is classified as a for-profit organization.

Answer: FALSE

Explanation: A charitable organization is not classified as a for-profit organization since it does not seek a profit. Charities are classified as nonprofit organizations.

Difficulty: 3 Hard

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

41) It was recently reported that Japan succeeded in improving its people's standard of living and establishing a relatively affluent society. This report clearly indicates that both income levels and the price of goods and services rose significantly during that time period.

Answer: FALSE

Explanation: If the people of Japan improved their standard of living, this means that they can purchase more with their current income than they were able to do in the past. In order to purchase the same or more goods than they were able to purchase in the past, the price of goods and services either stayed the same or decreased; or the price of goods and services stayed the same, but income levels rose.

Difficulty: 3 Hard

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

42) Starting a business is a riskier path toward business success than working your way up the ranks of a large business.

Answer: TRUE

Difficulty: 1 Easy

Topic: Define Entrepreneurship

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

43) Working as an entrepreneur is the only way to succeed in business.

Answer: FALSE

Difficulty: 1 Easy

Topic: Define Entrepreneurship

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

44) Paid vacations and health care insurance are among the benefits provided by the government to entrepreneurs.

Answer: FALSE

Difficulty: 1 Easy

Topic: Define Entrepreneurship

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

45) Land, sometimes called a natural resource, is the most critical factor of production in explaining why some countries are poor while others are rich.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

46) Money is one of the five factors of production that contribute to the creation of wealth.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

47) Tools, machinery, and buildings are examples of capital resources.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

48) The major advantage rich nations have over poor nations is an abundance of land and labor.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

49) Entrepreneurship is one of the five factors of production that contribute to the creation of wealth.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

50) Business consultant Peter Drucker said that the most important factor of production is knowledge.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

51) Most business experts agree that entrepreneurship and the effective use of knowledge are the most important contributors to the creation of wealth.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

52) The business environment refers to the surrounding factors that either help or hinder the development of businesses.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

53) Countries with an inadequately trained workforce and few entrepreneurs often achieve the highest levels of income by relying on a large number of workers.

Answer: FALSE

Explanation: Poor countries often have plenty of labor and access to adequate capital. However, the two factors of production that are most critical in generating national wealth are entrepreneurship and knowledge. A country found lacking in these would experience relatively low levels of income.

Difficulty: 2 Medium

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

54) If they wish to create more wealth, poor nations should focus on policies that increase entrepreneurship and the effective use of knowledge.

Answer: TRUE

Explanation: Poorer nations often have plenty of labor and land, as well as access to capital. However, the absence of entrepreneurship and knowledgeable workers seems to be the reason that most poor countries remain poor.

Difficulty: 2 Medium

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

55) Aaron recently opened Twangy Tunes, a small recording studio in Nashville, TN. He probably could have set up shop in several major cities, but Nashville offered him the two most important factors, according to Peter Drucker, that would enhance the creation of wealth: labor and political freedom.

Answer: FALSE

Explanation: According to leading economists and business analysts like Peter Drucker, entrepreneurship and knowledge are the two key factors that enhance the creation of wealth.

Difficulty: 3 Hard

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

56) Gary recently completed his degree in management and is planning to start a business rehabilitating apartment buildings. After researching several potential areas, he chose Los Angeles due to its high population. Greg felt that this factor would create a large labor pool, the most important of the five factors of production.

Answer: FALSE

Explanation: While labor is included in the factors of production, entrepreneurship and knowledge are considered the most important factors in the creation of wealth.

Difficulty: 3 Hard

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

57) Jackson is supposed to be studying for finals but his mind keeps wandering to the beach. Several years ago, his Uncle Mitch made it big and now owns a small resort near Fort Lauderdale. He promised Jackson a management trainee position and the opportunity to buy into the company by contributing a portion of his paycheck each month back into the business. As he daydreams about being his own boss, he should realize that freedom to succeed also means freedom to fail.

Answer: TRUE

Explanation: Entrepreneurship promises its participants the opportunity for great success; however, the potential of failure also looms in the process.

Difficulty: 3 Hard

Topic: Define Entrepreneurship

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

58) Taxes and government regulations are part of the economic and legal environment in which businesses operate.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

59) High taxes and government restrictions help to encourage entrepreneurs by providing greater incentives for people to work hard and create profit.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

60) One of the best things the governments of developing countries can do to increase wealth is to minimize interference with the free exchange of goods and services.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Private Enterprise System; The Impact of Information Technology on Business

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

61) In countries where businesses cannot enter into binding contracts, business owners assume additional risk.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

62) In an effort to increase wealth and their country's standard of living, many governments are taking over major industries and operating them as nonprofit organizations.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Private Enterprise System; The Impact of Information Technology on Business

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

63) Corruption and illegal activities are expected in a capitalist system and can be beneficial.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

64) One way for a government to actively promote entrepreneurship is to establish a currency that's tradable in world markets so that you can buy and sell goods anywhere in the world using that currency.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

65) Honesty, integrity, and high ethical standards are essential to a capitalist economic system like the one that operates in the United States.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Remember

AACSB: Ethics

Accessibility: Keyboard Navigation

66) Laws that allow companies to write enforceable contracts decrease the risk of doing business.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

67) In rich countries such as the United States, changes in the level of taxation have little impact on the incentives of entrepreneurs.

Answer: FALSE

Explanation: High taxes and excessive regulation tend to discourage entrepreneurship even in wealthy nations. In the United States, those states with the highest taxes and most burdensome regulations tend to drive out entrepreneurs while states with lower taxes and fewer regulations tend to attract them.

Difficulty: 2 Medium

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

68) The failure to uphold high ethical business standards by a few companies can negatively impact the entire U.S. business community.

Answer: TRUE

Explanation: Unethical business standards negatively affect the business community and our nation's economy. Ethics are so important that the news media will widely report unethical behavior.

Difficulty: 2 Medium

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Understand

AACSB: Ethics

Accessibility: Keyboard Navigation

69) The government of the small nation of Gordonia owned the nation's telephone company and landlines. This relatively poor government relied on taxes to develop this industry and provide service to its citizens. If the government wanted to improve people's access to phone service, its best course of action would involve selling the telephone company to private investors.

Answer: TRUE

Explanation: Government can actively promote entrepreneurship by encouraging private ownership of businesses. If the government owns the businesses there is little incentive for people to work hard to create profits.

Difficulty: 3 Hard

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Analyze

AACSB: Analytic Thinking

Accessibility: Keyboard Navigation

70) The government of Willopolis is trying to attain a higher quality of life by imposing strict regulations to protect the environment and ensure safe working conditions in its industries. The government also has established programs to help the poor, financing them by raising tax rates. These efforts by Willopolis's government should create an atmosphere that encourages entrepreneurship.

Answer: FALSE

Explanation: One of the things a government can do to encourage entrepreneurship and the formation of wealth is to keep regulations and taxes to a minimum.

Difficulty: 3 Hard

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

71) Though it has received a lot of attention, the development of information technology (IT) has had less of an impact on the way businesses operate than many other changes.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

72) An increase in productivity indicates that more can be produced in a given time period with the same amount of resources.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

73) Technology can help businesses become more efficient and productive.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

74) Productivity is the amount of output you generate given the amount of input such as hours worked.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

75) Effectiveness means producing goods and services using the least amount of resources.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

76) Effectiveness means producing the desired result.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

77) Technology refers to everything that makes business operations more effective, efficient, and productive.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

78) E-commerce is the buying and selling of goods online.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

79) The online B2B market consists of selling goods and services to consumers.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

80) The rise of online marketing has become particularly important in doing business in the B2B markets.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

81) The business-to-business segment of e-commerce is of less importance than the business-to-consumer segment of e-commerce.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

82) Technology allows firms to be more responsive to their customers' wants and needs.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

83) Bar codes are a form of technology that has enhanced a company's ability to be responsive to consumer needs.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

84) An electronic storage file where information is kept is called a CPU.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

85) The databases of a business often include a great deal of information about the firm's customers.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

86) Information in a database allows firms to carry only the products that the local population wants.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

87) Identity theft is when individuals or firms access people's personal information and then use it for illegal purposes and activities.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

88) The main difference between B2C and B2B e-commerce is that B2C is only used online, while B2B combines e-commerce with traditional (bricks-and-mortar) outlets.

Answer: FALSE

Explanation: The major difference between B2C and B2B is the customer. B2C stands for business-to-consumer. Businesses involved in B2C sell mainly to households. B2B stands for business-to-business. Businesses involved in B2B sell mainly to other businesses.

Difficulty: 2 Medium

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

89) One of the major advantages to firms involved in e-commerce is that the technology is still so new that the online firms face very little competition.

Answer: FALSE

Explanation: The rise of e-commerce has led to intense competition. The rise of Internet marketing drew hundreds of competitors into the fray.

Difficulty: 2 Medium

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

90) Natalie has joined several other investors to form a new company that sells cosmetics products to consumers online. Natalie has invested in a B2C e-commerce company.

Answer: TRUE

Explanation: B2C companies specialize in selling goods to consumers.

Difficulty: 3 Hard

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

91) Workers in the island nation of Rainland have enjoyed an increase in the number of holidays and a reduction in the average length of the workday. This has reduced the total number of hours they work each year. However, the output per worker is higher now than it was before the reduction in hours. These facts imply that productivity on the island has increased.

Answer: TRUE

Explanation: Productivity is measured by dividing total output by work hours. Since output is higher while work hours have dropped, productivity must be higher.

Difficulty: 3 Hard

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

92) SmoothCoats produces industrial coatings for the steel industry. Until recently it relied on wholesalers to distribute its products to other businesses, but now it also sells directly to its B2B customers through its website. This is an example of the largest and most important type of e-commerce transaction.

Answer: TRUE

Explanation: As important as the Internet has been in the consumer market (B2C), it has become even more important in the business-to-business (B2B) market.

Difficulty: 3 Hard

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Apply

AACSB: Knowledge Application; Analytic Thinking

Accessibility: Keyboard Navigation

93) As emerging technologies become widespread, businesses tend to find better uses for them. However, in the case of the Internet, businesses that sell B2B have not benefited from directly selling to their business customers in the same way that B2C companies have done.

Answer: FALSE

Explanation: The Internet has become an important business tool in both the B2B market and the B2C market.

Difficulty: 3 Hard

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

94) Julia finds it easy to do all her holiday shopping online. She can take comfort in the fact that new technologies if installed properly are seldom used in unethical ways.

Answer: FALSE

Explanation: Although technological wonders such as the Internet have improved the way we communicate with customers and friends, problems such as identity theft have surfaced.

Difficulty: 3 Hard

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

95) Technological innovation has a ripple effect. Kevin, a certified tech-nerd, is being courted by companies to write the next generation of antivirus software. Kevin should take this job because it will provide future opportunities for him.

Answer: TRUE

Explanation: The Internet has created tremendous job opportunities for specialists like Kevin.

Difficulty: 3 Hard

Topic: The Risks Associated with Information Technology

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

96) To remain competitive in today's market, firms must produce a quality product and offer outstanding service at a reasonable price.

Answer: TRUE

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

97) Producing a high-quality product will ensure success in the competitive environment.

Answer: FALSE

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

98) Successful firms follow a customer-driven strategy, as opposed to the management-driven strategy used in the past.

Answer: TRUE

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

99) Zero defects means that there is a company goal of no mistakes in making products.

Answer: TRUE

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

100) Today's businesses have a managerial focus rather than a customer focus.

Answer: FALSE

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

101) Competition is fierce! One way to respond quickly to customer needs is to develop a strategy of empowering employees.

Answer: TRUE

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

102) A policy of empowerment encourages managers to make decisions quickly for their frontline employees.

Answer: FALSE

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

103) Empowerment means giving frontline workers the responsibility, authority, and freedom to respond quickly to customer requests.

Answer: TRUE

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

104) The goal of empowerment in the workplace is to prevent mistakes. Therefore, giving management more control over the actions of lower-level workers will prevent mistakes.

Answer: FALSE

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

105) The primary focus of successful firms is designing and producing high-quality goods. Advertising is then used to convince consumers to buy their superior products.

Answer: FALSE

Explanation: Successful businesses are customer-driven, meaning that they listen to the wants and needs of customers and adjust their products, policies, and practices to better meet customer demands.

Difficulty: 2 Medium

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

106) It's important that firms are as efficient as possible. This is done by becoming management-driven for efficiency.

Answer: FALSE

Explanation: Business has become more customer-driven, not management-driven as in the past. This means that customers' wants and needs must come first.

Difficulty: 2 Medium

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

107) Customer-driven organizations require managers to closely direct and control their employees.

Answer: FALSE

Explanation: Customer-driven organizations will exceed their customers' expectations by empowering their frontline employees. The movement toward empowerment suggests that lower-level workers are likely to assume more responsibility in the future, while managers will give up some of their authority. Managers must train frontline people to make decisions without the need to consult managers.

Difficulty: 2 Medium

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

108) Buddy and Pablo are worthy competitors in the bakery business in Baltimore. Buddy recently negotiated a contract with a supplier for really cheap chocolate. He knows that bakery customers want cheap products. In this competitive environment, keeping the price down is all that matters.

Answer: FALSE

Explanation: In the current competitive environment of every industry, customers are looking for high quality and good value, at competitive prices.

Difficulty: 3 Hard

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Analyze

AACSB: Analytic Thinking

Accessibility: Keyboard Navigation

109) Bonnie runs a house cleaning service. Although she and her employees could service 12 households in one day, they average eight homes per day. Bonnie recently restructured her crew and provided each housekeeper with an incentive to acquire two new customers each month through customer referrals. As a recent business graduate, you would tell her she's probably on the right track.

Answer: TRUE

Explanation: Companies now have to offer both high-quality products and good value, but also outstanding service at competitive prices. Through restructuring, owners/managers often give up some of their authority and empower employees to make decisions that exceed customer's expectations.

Difficulty: 3 Hard

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Analyze

AACSB: Analytic Thinking

Accessibility: Keyboard Navigation

110) The statistical study of the human population to describe its size, age, gender, and income is known as diversity recognition.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

111) The U.S. population tends to buy the same things and spend time in roughly the same way as people did a decade ago.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

112) Demographic changes create new business opportunities.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

113) Diversity groups identified in the market today can include extroverts, introverts, atheists, and the religious.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cultural Diversity in the Workplace

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Diversity

Accessibility: Keyboard Navigation

114) Companies have responded to a diverse customer base by hiring a more diverse workforce.

Answer: TRUE

Difficulty: 1 Easy

Topic: Cultural Diversity in the Workplace

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Diversity

Accessibility: Keyboard Navigation

115) Currently people between the ages of 45 and 54 are the richest group in the United States.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

116) New welfare rules have made it easier for single parents to remain at home with their young children without being required to seek employment.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

117) In some cities, the number of legal and illegal immigrants has caused governments to adapt by changing signs and forms to other languages.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

118) The federal government requires companies to take diversity very seriously, even recommending establishing a chief diversity officer in the executive suite.

Answer: FALSE

Difficulty: 1 Easy

Topic: Cultural Diversity in the Workplace

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Diversity

Accessibility: Keyboard Navigation

119) One factor that has had a major effect on businesses is the growth of single-parent families.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

120) Businesses that cater to older consumers in the future will likely not be successful.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

121) Businesses use demographic studies to understand where people live, their lifestyles, and what they are likely to buy.

Answer: TRUE

Explanation: Demography is the statistical study of the human population to learn its size, density, and characteristics. Since many goods and services appeal to customers with specific demographic characteristics (such as age or income), studying demographic trends can help businesses determine whether the demand for a good is likely to rise or fall.

Difficulty: 2 Medium

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

122) Diversity management would not be an issue if firms would treat all of their employees the same.

Answer: FALSE

Explanation: A diverse workforce can consist of minorities, women, people with disabilities, people with different sexual orientations, and with different religious beliefs. These differences can be a strength only if management works to meet the needs of each group while achieving the organizational goals. The interaction of these different views can encourage new perspectives and creative approaches to solving problems.

Difficulty: 2 Medium

Topic: Cultural Diversity in the Workplace

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Understand

AACSB: Diversity

Accessibility: Keyboard Navigation

123) Demographic trends suggest that businesses will benefit from offering flexible work schedules, elder care, and child care to help employees balance the demands of job and family.

Answer: TRUE

Explanation: The increase in the number of single-parent families is a powerful demographic trend. Successful organizations will adjust and accommodate these changes in their social environment.

Difficulty: 2 Medium

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

124) The current Social Security system will ensure that the young people of today will have Social Security benefits in the future when they retire.

Answer: FALSE

Explanation: The current Social Security system means that today's workers pay for today's retirees. To date this has worked since there are more workers supporting each retiree. However, soon, less money will be coming into Social Security than will be going out and there will be a shortfall, suggesting that today's young people will not have Social Security benefits in the future.

Difficulty: 2 Medium

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

125) Jorge, a recent college graduate, is thinking of investing in a home health care business. He believes this will be a profitable venture because of the increasing number of people in the U.S. that will be over 65 years of age in the near future and more likely to need this type of service. This accurately describes a demographic trend that will affect his business choice.

Answer: TRUE

Explanation: When scanning the social environment for opportunities and threats, business professionals study demographic changes in their respective markets. Demographic changes like age can have a significant impact on business choices and career opportunities.

Difficulty: 3 Hard

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

126) Elizabeth is a single mother of small children. Her employer is considering providing family leave. Since she is a single mom with two young children, she is unlikely to benefit from this program.

Answer: FALSE

Explanation: Family leave allows workers to take time off to attend to a sick child and should be quite beneficial to Elizabeth since she has two small children.

Difficulty: 3 Hard

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

127) Jeff is an emergency room nurse at a regional hospital in Arizona. On a weekly basis, he will serve a number of patients who are not legally U.S. citizens. Fortunately, he speaks enough Spanish to communicate with the patients. Jeff is experiencing the realities of the social environment in some states.

Answer: TRUE

Explanation: There is a sizeable Spanish-speaking population that lives in this state. The social environment in many states and many countries can differ. Both for-profit and nonprofit companies must adjust to accommodate for changes in the social environment.

Difficulty: 3 Hard

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

128) Globalization has increased among nations.

Answer: TRUE

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

129) An important environmental change in the global environment is the growth of international competition.

Answer: TRUE

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

130) Improved distribution systems have led to more global trade.

Answer: TRUE

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

131) Global trade has suffered because of increased problems with the Internet.

Answer: FALSE

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

132) Globalization has greatly increased living standards around the world.

Answer: TRUE

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

133) China and India have become major U.S. competitors.

Answer: TRUE

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

134) The threat of terrorism increases the costs of operating most businesses.

Answer: TRUE

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

135) Wars are costly to all companies.

Answer: FALSE

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

136) War and terrorism have had a significant effect in drawing many resources away from the U.S. economy and led to many additional costs for businesses.

Answer: TRUE

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

137) In most industries, the only producers that pose a serious threat to U.S. manufacturers are those in Japan and Western Europe.

Answer: FALSE

Explanation: Producers in countries like China and India have become major U.S. competitors.

Difficulty: 2 Medium

Topic: Competition

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

138) Companies that participate in the defense industry by making weapons and other companies that make armored vehicles and even food companies do well when the U.S. is at war.

Answer: TRUE

Explanation: Although wars are quite costly for most companies, there are some whose revenues and profits grow. These are usually companies with government contracts that support the war effort.

Difficulty: 2 Medium

Topic: Competition

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

139) According to the box, "Hollywood Climbs the Great Wall," casting American actors of Chinese descent attracts larger audiences in China rather than casting a Chinese actor.

Answer: FALSE

Explanation: Though more than half of the top ten grossing films in China are from Hollywood, producers are looking to cast Chinese actors in their movies to appeal to audiences in China. Most recently the producers of the "Jumanji" remake were seeking a Chinese actor to feature in their film.

Difficulty: 2 Medium

Topic: Competition

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

140) One of the problems with globalization is that distribution systems and communication systems lack efficiency.

Answer: FALSE

Explanation: Distribution systems and communication systems have improved dramatically, and have contributed to world trade.

Difficulty: 2 Medium

Topic: Competition

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

141) The evidence for climate change is highly suspect. Well-known U.S. companies are taking a wait-and-see approach toward addressing climate change.

Answer: FALSE

Explanation: Climate change is a key question on the minds of most companies.

Difficulty: 2 Medium

Topic: Corporate Social Responsibility

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

142) Michael James owns a small manufacturing company that makes ventilation systems used in the construction of buildings. As the U.S. continues to be involved in wars around the globe, Michael may notice that his business will be growing more slowly in the future as more money continues to be put into the war effort.

Answer: TRUE

Explanation: Recent wars have drawn trillions of dollars from the American economy. Many companies have lost workers to the armed forces and have grown more slowly as money has been diverted to the war effort.

Difficulty: 3 Hard

Topic: Competition

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

143) Lacey owns a bakery in Dallas. She read online that the homeland security threat level has been increased due to anticipated terrorist activities, especially in large cities in the U.S. She will likely not be able to get insurance to cover any losses her business may suffer should an attack occur in Dallas.

Answer: TRUE

Explanation: Lacey's restaurant is located in a large U.S. city. Firms have found it difficult to get insurance against terrorist attacks.

Difficulty: 3 Hard

Topic: Competition

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

144) After several years of working and going to school part time, Hakim recently earned a degree in marketing at a local college. The growth in global markets may increase Hakim's job opportunities, but it will also require him to continually update his skills or seek additional education.

Answer: TRUE

Explanation: As businesses expand to serve global markets, new jobs will be created. But global markets will also create more competition. In order to remain competitive, U.S. workers will have to continually update their knowledge and skills.

Difficulty: 3 Hard

Topic: Competition

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

145) Maria is an engineer for Blustery Breezes, a small manufacturer of wind turbines. Recently, a larger company, PowerMen Electric, has shown interest in investing in this small operation. This is not surprising since firms that are creating products for alternative sources of energy are attracting the attention of governments and other businesses.

Answer: TRUE

Explanation: Energy and sources of energy promise to be key considerations that will attract the attention of government and other businesses.

Difficulty: 3 Hard

Topic: Competition

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Analyze

AACSB: Analytic Thinking

Accessibility: Keyboard Navigation

146) Over many years the nature of U.S. business has changed very little from century to century.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

147) The number of U.S. jobs in manufacturing has increased in the past five years.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

148) Technology helped the manufacturing industry to become more productive.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

149) While the proportion of workers employed in agriculture has remained relatively constant, the average size of farms has steadily decreased over the past century.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

150) Increases in productivity have allowed fewer farmers to feed more and more people.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

151) The advice provided by a personal trainer is an example of the service industry.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

152) Almost all of the growth in employment opportunities since the mid-1980s has been generated by the service sector.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

153) Although employment in the service sector has increased rapidly in recent years, the vast majority of workers are still employed in the goods-producing sector.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

154) There are currently more high-paying jobs in the service sector than in the goods-producing sector.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

155) The best employment strategy for today's college graduates is to search for jobs that are closely related to their college major.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

156) The growth in the service sector in the United States appears to be giving way to an information-based global era.

Answer: TRUE

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

157) The transition from an agricultural economy to a manufacturing economy to a service-based economy has resulted in a serious increase in long-term unemployment.

Answer: FALSE

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

158) One reason given for the decline in the number of U.S. workers employed in manufacturing is that manufacturing firms in the U.S. have become more efficient.

Answer: TRUE

Explanation: Technology has allowed U.S. workers to be more productive, resulting in the need for fewer workers. Many American manufacturing firms have downsized because of this increased efficiency.

Difficulty: 2 Medium

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

159) The continuing increase in the number of U.S. workers in the service sector means that more and more workers are employed in low-wage positions.

Answer: FALSE

Explanation: Some jobs in the service sector do pay low wages, but there are actually more high-paying jobs in the service sector than in the goods-producing sector. Service jobs include high-wage positions in such industries as health care, accounting, architecture, law, and telecommunications.

Difficulty: 2 Medium

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

160) Historically jobs lost in one sector of the economy have been replaced by increased employment opportunities in other sectors.

Answer: TRUE

Explanation: The history of our nation's economy shows that as jobs were lost in agriculture earlier in the last century, displaced farm workers were often able to find employment in the growing manufacturing sector. More recently, declines in manufacturing employment have been offset by rapid growth in the service sector. The latest growth area for new jobs is in information technology.

Difficulty: 2 Medium

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

161) Kira is a financial planner who helps people find ways to save for retirement and lower their taxes. Kira is employed in the service sector of the economy.

Answer: TRUE

Explanation: The service sector produces intangible goods. Financial planning is one type of service.

Difficulty: 3 Hard

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

162) After losing her manufacturing job in the U.S. automobile industry, Cho has found that well-paid service-sector jobs require retraining and further education.

Answer: TRUE

Explanation: High-paying service-sector jobs can be found in health care, accounting, finance, entertainment, telecommunications, architecture, law, and software engineering. However, these jobs require specialized training and education.

Difficulty: 3 Hard

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Analyze

AACSB: Analytic Thinking

Accessibility: Keyboard Navigation

- 163) An entity that seeks to earn a profit by providing a good or service is known as a(n)
- A) industry.
 - B) corporation.
 - C) business.
 - D) service.

Answer: C

Difficulty: 1 Easy

Topic: Definition of Business

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 164) _____ is the amount a business earns after deducting what it spends for salaries and other expenses.
- A) Profit
 - B) Revenue
 - C) Interest
 - D) Dividends

Answer: A

Difficulty: 1 Easy

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 165) A business incurs a _____ if its costs and expenses exceed its revenues.
- A) loss
 - B) liability
 - C) debit
 - D) dividend

Answer: A

Difficulty: 1 Easy

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

166) _____ is the chance a business owner will lose the time and money invested in a business that proves to be unprofitable.

- A) Depreciation
- B) Risk
- C) Fallibility
- D) Redundancy

Answer: B

Difficulty: 1 Easy

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

167) The total amount of money that businesses take in by selling goods and services is called _____.

- A) profit
- B) revenue
- C) loss
- D) retained earnings

Answer: B

Difficulty: 1 Easy

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

168) A(n) _____ is a person who assumes the risk of starting a business.

- A) manager
- B) entrepreneur
- C) employee
- D) stakeholder

Answer: B

Difficulty: 1 Easy

Topic: Define Entrepreneurship

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

169) Starting a business always involves _____.

- A) profit
- B) loss
- C) revenue
- D) risk

Answer: D

Difficulty: 1 Easy

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

170) Often in business the greater the risk, the _____.

- A) greater the potential reward
- B) lower the expected revenues
- C) lower the value provided to society
- D) greater the number of stakeholders

Answer: A

Difficulty: 1 Easy

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

171) _____ is a measure of the general well-being and satisfaction derived from a variety of factors including political freedom, safety, education, and a clean environment.

- A) Standard of living
- B) Quality of life
- C) Gross national income
- D) Social satisfaction index

Answer: B

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

172) The amount of goods and services people can buy with the money they have is called their:
A) nominal income.
B) consumer price index.
C) profit margin.
D) standard of living.

Answer: D

Difficulty: 1 Easy

Topic: The Private Enterprise System; The Impact of Information Technology on Business

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

173) The customers, employees, stockholders, suppliers, creditors, and others who stand to gain or lose by the policies and activities of a business represent the firm's:
A) market makers.
B) economic environment.
C) stakeholders.
D) social mentors.

Answer: C

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

174) The most important difference between for-profit businesses and nonprofit organizations is that:
A) businesses do not benefit society.
B) nonprofit organizations seek to make a profit for their owners and organizers.
C) nonprofit organizations do not seek a profit for their owners or organizers.
D) nonprofit organizations do not file tax returns.

Answer: C

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

175) Last year, Archer Electronics reported revenues of \$34 million while its total expenses were \$10 million. Based on this information, Archer reported

- A) profits of \$24 million.
- B) profits of \$34 million.
- C) losses of \$24 million.
- D) losses off \$34 million.

Answer: A

Explanation: Profits are found by subtracting costs and expenses from revenues, so Adventure Enterprises profits are \$34 million - \$10 million = \$24 million

Difficulty: 2 Medium

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

176) A common characteristic of most entrepreneurs is that they:

- A) accept the risks involved in starting and managing a business.
- B) have a high level of scientific and technical expertise.
- C) possess a great deal of personal wealth.
- D) have experience in running large, complex organizations.

Answer: A

Explanation: An entrepreneur is a person who risks time and money to start and manage a business.

Difficulty: 2 Medium

Topic: Define Entrepreneurship

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

177) Which of the following is the best example of a business whose goal is to earn a profit?

- A) A community college
- B) The American Red Cross
- C) Boy Scouts of America
- D) Apple

Answer: D

Explanation: Apple is the only one of the organizations listed which seeks to earn a profit. All of the others are nonprofit organizations.

Difficulty: 2 Medium

Topic: Definition of Business

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

178) In order to make an intelligent investment decision, entrepreneurs should:

- A) limit their options to those business investments that are backed by the U.S. government.
- B) invest in businesses that have generated a stable rate of profit for at least the past 10 years.
- C) invest only in business opportunities where it is possible to take an active role in management.
- D) compare the risks of potential investments to their expected profits and find the right balance between profit and risk.

Answer: D

Explanation: Those companies with high risk also often possess the potential for high profits. Entrepreneurs must weigh risk and profit and find the right balance.

Difficulty: 2 Medium

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

179) Honda and Hyundai have insourced for years to design and manufacture cars in the United States. Insourcing

- A) helps offset the number of jobs being outsourced.
- B) increases the number of jobs being outsourced.
- C) damages the United States economy.
- D) causes jobs to be lost to overseas competitors.

Answer: A

Explanation: Companies including Honda and Hyundai have set up design and production facilities in the United States. Insourcing creates many new jobs, and helps offset the number of jobs being outsourced. Because insourcing creates jobs, it actually helps the U.S. economy.

Difficulty: 2 Medium

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

180) Public schools, charities, and government agencies generally _____.

- A) are incorporated
- B) do not seek to earn a profit
- C) provide goods rather than services
- D) do not have any stakeholders

Answer: B

Explanation: Although schools, charities, and government agencies often provide goods and services, they do not seek a profit. Therefore, they are nonprofit organizations rather than businesses.

Difficulty: 2 Medium

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

181) For-profit businesses and nonprofit organizations are similar in that they both:

- A) contribute to the welfare of society.
- B) seek to earn a profit.
- C) have a limited life.
- D) must be controlled by a board of directors.

Answer: A

Explanation: A business is an activity that seeks to profit by providing goods and services to others. Nonprofit organizations, such as charities and government agencies, also provide goods and services to satisfy the needs of people within a society, but they do not seek a profit.

Difficulty: 2 Medium

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

182) The standard of living for a nation's people depends mainly on:

- A) the quality of the natural environment.
- B) how much political freedom they have.
- C) their income and the prices of the goods and services they buy.
- D) the amount of labor and capital available employed in the manufacturing sector.

Answer: C

Explanation: The standard of living of a country refers to the amount of goods and services people can buy with the money they have.

Difficulty: 2 Medium

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

183) World-class businesses attempt to meet the needs of:

- A) their customers, even if it comes at the expense of employees and other stakeholders in the business.
- B) their employees, even if it means shortchanging customers by charging higher prices.
- C) all stakeholders.
- D) exclusively their owners, since they are ultimately the ones who pay the bills.

Answer: C

Explanation: Stakeholders are all the people affected by a business. World-class firms of the future will attempt to meet the needs of all of stakeholders.

Difficulty: 2 Medium

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

184) Michelle recently started selling her invention: A bed that looks like it floats in mid-air. The bed is actually suspended by magnetic forces. Michelle is a(n)

- A) arbitrageur.
- B) entrepreneur.
- C) speculator.
- D) account manager.

Answer: B

Explanation: An entrepreneur is a person who assumes the risk of starting a business.

Difficulty: 3 Hard

Topic: Define Entrepreneurship

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

185) Donnell wants to invest some money that he just inherited. He found that his bank offers a savings account paying a guaranteed .3% rate of return. However, he would like to earn a higher return. Donnell should keep in mind that to earn a higher return on his money he

- A) will have to invest overseas.
- B) should invest in a business that has a very stable and predictable rate of return.
- C) will probably have to accept a higher level of risk.
- D) will probably have to engage in illegal activities.

Answer: C

Explanation: Investing in a savings account (certificate of deposit) at a bank entails very little risk, but earns a relatively small return. Business opportunities that offer the potential for high profits are often associated with a high level of risk. An investor must weigh the potential profit of an investment with its risk.

Difficulty: 3 Hard

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

186) Which of the following is the most accurate statement about the impact of business on society?

- A) When businesses earn a profit for their owners, they usually do so at the expense of the rest of society, which proves it is never a win-win situation.
- B) While businesses often improve the standard of living within a society, they can do little to improve the quality of life.
- C) Businesses often improve the quality of life, but can do little to improve the standard of living of most people due to inflation.
- D) Businesses can have a positive impact on both the standard of living and the quality of life within a society.

Answer: D

Explanation: Businesses are part of an economic system that helps create a higher standard of living and quality of life for everyone.

Difficulty: 3 Hard

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

187) Though the prices of things she buys have gone up, Jin's income has remained stable over the past few years . Nevertheless, Jin feels better off because the environment is cleaner, the crime rate has dropped, she has more relaxation time, and the quality of medical care has improved. If Jin's experience is typical, we can assume that the standard of living has

- A) increased, but the quality of life has decreased.
- B) increased, and so has the quality of life.
- C) declined, but the quality of life has increased.
- D) declined, and so has the quality of life.

Answer: C

Explanation: The standard of living refers to how much people can buy with their income. Since prices have gone up faster than her income, Jin's standard of living has declined. However, quality of life refers to a broader measure of general well-being. The improved quality of the environment, safer streets, increased leisure time, and improved medical care would all contribute to an improvement in general well-being, and hence would increase the quality of life.

Difficulty: 3 Hard

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

188) Eve and her three college friends enjoy perfumes. As a special gift to each of them last holiday season, she found a way to make scented candles with each friend's favorite perfume scent. The three friends loved her gift idea and encouraged Eve to create more and sell them online. Recently, she is filling orders from her website, and turning a profit. Eve is proof that:

- A) me-too businesses work.
- B) when you successfully fill a market need, you can make money.
- C) the Internet is a way to distribute just about anything.
- D) the cost of supplies to make candles is relatively cheap.

Answer: B

Explanation: In order to stay competitive, entrepreneurs must find a market niche—something the market needs.

Difficulty: 3 Hard

Topic: Define Entrepreneurship

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Analyze

AACSB: Analytic Thinking

Accessibility: Keyboard Navigation

189) Green Goddess Developers is a large nationwide landscape company with home offices in Libertyville, IL. The local media often gushes over the gorgeous landscaping that surrounds the 30-acre headquarters. At the back end of the complex are several large warehouses and garages that hold large equipment. The grounds surrounding the warehouses look like a park. Across the street from the garages are several shops and businesses. The CEO, Patty, often talks about how thankful she is that the town permits her to store equipment at that site, and vows to always maintain the premises for her neighbors, not to mention that she asks 100 employees to come to work there every day. Which of the following statements describes Patty's business philosophy?

- A) Patty is a nice woman whose company made a lot of money, so she is willing to spread it around.
- B) Patty understands that even though it may cost a little more, stakeholder considerations are very important if you want your business to thrive.
- C) Patty is more concerned about town politics than about the company profits. She should ask his employees if they would rather have that money in their pockets than on the lawns.
- D) Patty is taking a business risk that her trucks and equipment will not make too much noise as they enter and exit the garages.

Answer: B

Explanation: When considering the social environment of one's business, it is important to consider all stakeholders that your business affects. Stakeholders include customers, employees, suppliers, and even other businesses and residential areas that are located within proximity of your business location.

Difficulty: 3 Hard

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Apply

AACSB: Knowledge Application; Analytic Thinking

Accessibility: Keyboard Navigation

190) Which of the following entails the greatest amount of risk?

- A) Working for the government
- B) Working for a large business
- C) Working for a small business
- D) Starting a business

Answer: D

Difficulty: 1 Easy

Topic: Define Entrepreneurship

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

191) The resources that contribute to the creation of wealth are known as _____.

- A) production coefficients
- B) factors of production
- C) production technologies
- D) production aggregates

Answer: B

Difficulty: 1 Easy

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

192) Which of the following is a factor of production?

- A) Bonds
- B) Money
- C) Knowledge
- D) Service

Answer: C

Difficulty: 1 Easy

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

193) As a factor of production, the term *capital* includes:

- A) Stocks and bonds issued by corporations.
- B) Natural resources such as land and water.
- C) Tools, machinery, and buildings.
- D) Services provided by the government that enable businesses to be more productive.

Answer: C

Difficulty: 1 Easy

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

194) Two factors of production that seem to contribute the most to a nation's ability to create wealth are:

- A) land and labor.
- B) land and capital.
- C) entrepreneurship and labor.
- D) entrepreneurship and knowledge.

Answer: D

Difficulty: 1 Easy

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

195) _____ is/are the external and internal circumstances that surround the business.

- A) The business environment
- B) The factors of production
- C) The business corral
- D) The business disciplines

Answer: A

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

196) Entrepreneurs weigh the differences between the benefits of starting a business and those things that they are likely to forego because they choose to work for themselves. Such things they are likely to pass up on are:

- A) the freedom to make their own decisions.
- B) local government benefits such as enterprise zone tax credits.
- C) employer-paid benefits such as paid vacation and health insurance.
- D) tickets to sporting events that trading partners may provide.

Answer: C

Explanation: Entrepreneurs and small business owners do not receive the employer-paid benefits that a large firm can offer, including such things as paid vacations and health insurance benefits. They give up these opportunities for the freedom to work for themselves and keep the profits that their businesses realize.

Difficulty: 2 Medium

Topic: Define Entrepreneurship

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

197) Which of the following is a benefit of owning your own business?

- A) Freedom to keep the profits from your business
- B) Government-supported health insurance
- C) More camaraderie with employees
- D) Shorter work hours

Answer: A

Explanation: One of the benefits of owning your own business is the freedom to keep the profits after taxes. Another is the enjoyment of being your own boss.

Difficulty: 2 Medium

Topic: Define Entrepreneurship

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

198) Mary Kay owns a nursery. The trucks, handcarts, and forklift she purchased for the business are called _____ investments.

- A) natural resources
- B) intangible resources
- C) current asset
- D) capital

Answer: D

Explanation: As a factor of production, capital includes tools, machinery, equipment, such as the trucks, hand carts, and forklift machines mentioned in this question.

Difficulty: 2 Medium

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

199) As you consider the factors of production, which of the following did management theorist Peter Drucker believe to be one of the most important contributing factors to increasing our nation's wealth?

- A) Land
- B) Labor
- C) Knowledge
- D) Capital

Answer: C

Explanation: According to the late Peter Drucker, knowledge is and will be the most important factor of production in our economy. He specifically refers to the high-tech workers in the Silicon Valley as knowledge workers.

Difficulty: 2 Medium

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 200) When we compare the factors of production in wealthy versus poor nations, we find
- A) poor nations have plenty of land and knowledge, but very little labor.
 - B) poor and wealthy nations (both) have an abundance of knowledge; it is the land that varies, with rich nations always having more.
 - C) wealthy nations have knowledge and entrepreneurial opportunities, while poor nations are often lacking in these areas.
 - D) wealthy nations have land and labor, while poor nations have capital and entrepreneurship.

Answer: C

Explanation: The factors of production known as *knowledge* and *entrepreneurship* contribute toward a nation's opportunity to innovate and create new products and services. Entrepreneurs use their knowledge to grow their businesses and increase wealth.

Difficulty: 2 Medium

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

201) A nation progresses socially when it has good schools, clean air and water, and more.

Which of the following statements addresses conditions for social progress?

- A) Social progress will evolve when capital is apportioned to everyone in equal amounts.
- B) A city, state, or nation's social progress needs the right business environment.
- C) The foundation for social progress is a handful of wealthy entrepreneurs willing to spread the wealth.
- D) Social progress can only improve when there is a strong labor pool to draw from.

Answer: B

Explanation: The foundation for social progress is having the right business environment. When businesses create wealth and jobs, they are able to contribute to the social progress in the area where they operate. The result is usually good schools and other social services, such as police protection and good health environment.

Difficulty: 2 Medium

Topic: The Private Enterprise System

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

202) Which of the following statements about factors of production is the most accurate?

- A) The five factors of production are energy, capital, labor, leadership, and money.
- B) Wealth creation in poor nations is slowed by chronic shortages of labor.
- C) Each of the factors of production is equally important in creating wealth.
- D) Entrepreneurship and knowledge are the most important in creating wealth.

Answer: D

Explanation: There are five major categories of factors of production: land, labor, capital, entrepreneurship, and knowledge. Poor nations often have plenty of labor and land, but lack entrepreneurship and knowledge resources. Thus, the only accurate statement is that knowledge and entrepreneurship are the most important factors of production for the creation of wealth.

Difficulty: 3 Hard

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

203) Cantlivia is a small and poor nation, but its current prime minister has a desire to create more wealth for her citizens. The prime minister has received recommendations from several of her advisors. Which of the following recommendations is likely to create the most wealth for Cantlivia?

- A) Acquire more land by invading a neighboring country that is even poorer and weaker than Cantlivia.
- B) Use foreign aid from other nations to purchase more tools and machinery.
- C) Establish a business environment that promotes and rewards entrepreneurship.
- D) Establish barriers to trade to protect Cantlivia businesses from foreign competition.

Answer: C

Explanation: The factors of production that seem to contribute most to the generation of wealth are entrepreneurship and knowledge. Thus, one key to promoting wealth creation is to foster entrepreneurship.

Difficulty: 3 Hard

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

204) Brendan and Sean combined their love of baseball with a business venture. They purchased a small cart and began selling memorabilia outside of their hometown stadium. Their first year went well, but the past two years have been quite a struggle. Due to poor economic conditions and the team's horrible record, ticket sales at the stadium are down, which has significantly hurt their sales as well. As a recent business graduate, you explain to Brendan and Sean that

- A) this type of business is always high risk because it is seasonal.
- B) the business does not fill a sufficient need for most people.
- C) environmental circumstances are dynamic and tough to control.
- D) social entrepreneurs are currently getting most of the attention.

Answer: C

Explanation: The business environment consists of surrounding factors that either help or hinder the development of businesses. In this case the economic environment has severely affected the number of people attending hockey games. Business environments are dynamic. They are constantly changing and business must learn to navigate the changes.

Difficulty: 3 Hard

Topic: The Private Enterprise System

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

205) Pete is a recent finance graduate who has two passions: music and finance. Upon graduation, he was offered an opportunity to join a struggling rock band with a lot of potential, or a job at a large well-established financial services company. By joining the band, he will forego which of the following?

- A) Added benefits such as health insurance provided to employees of large corporations.
- B) The freedom to contribute as an innovator in his work environment.
- C) Long hours at work, while he learns the business and contributes to making it successful.
- D) Job protection.

Answer: A

Explanation: Entrepreneurial ventures and small businesses, particularly in their infancy, cannot offer owners/employees the same benefits as large, established companies. In this case, it is the health benefits Pete will forego.

Difficulty: 3 Hard

Topic: Define Entrepreneurship

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

206) China is a nation with a vast amount of land and a very large population. Another characteristic of this nation is its people's affinity for saving money. Referring to the five factors of production, the government of China has made significant progress in building its business environment by focusing on factors that needed improvement. Its best strategy would be to

- A) increase the supply of labor.
- B) increase sources for capital.
- C) increase entrepreneurship.
- D) encourage neighboring nations to provide the necessary land for business development.

Answer: C

Explanation: Entrepreneurship is one of two factors of production that management theorists believe to be most important for wealth creation. The other is knowledge.

Difficulty: 3 Hard

Topic: The Factors of Production

Learning Objective: 01-02 Explain how entrepreneurship and the other factors of production contribute to the creation of wealth.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

207) Taxes and government regulations are part of the _____ environment of business.

- A) economic and legal
- B) competitive
- C) social
- D) technological

Answer: A

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

208) Businesses favor:

- A) minimal government spending because it keeps taxes to a minimum.
- B) more government services because it minimizes tax consequences.
- C) maximum government spending because it raises business profits.
- D) less government spending because it lowers business profits.

Answer: A

Difficulty: 1 Easy

Topic: The Private Enterprise System; The Impact of Information Technology on Business

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

209) In order to create more wealth and provide better services, some nations recognize that _____.

- A) raising taxes benefits all businesses.
- B) a good strategy is to minimize interference with the free exchange of goods and services.
- C) restricting trade with other countries always helps domestic businesses.
- D) taking control of privately owned businesses and making them government-run will decrease taxes and improve the lives of everyone.

Answer: B

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

210) In countries where businesses are government owned,

- A) there is less incentive to work hard.
- B) the right amount of each good is produced.
- C) profits tend to be higher.
- D) the quality of goods is high but profits are low.

Answer: A

Difficulty: 1 Easy

Topic: The Private Enterprise System; The Impact of Information Technology on Business

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

211) High tax rates tend to:

- A) promote economic development.
- B) make a nation's currency tradable.
- C) discourage entrepreneurship.
- D) reduce the amount of money created by the government.

Answer: C

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

212) Contemporary governments promote business development by

- A) increasing business regulations.
- B) providing government ownership of businesses.
- C) permitting businesspeople to conduct business without the use of contracts.
- D) establishing a currency that's tradable in world markets.

Answer: D

Explanation: The government can establish a currency that's tradable in world markets so that businesspeople can buy and sell goods and services anywhere in the world using that currency.

Difficulty: 2 Medium

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

213) Which of the following policies would tend to foster entrepreneurship?

- A) Minimize taxes and regulations.
- B) Promote more regulations to protect the environment.
- C) Develop policies to reduce corruption between individuals.
- D) Encourage public ownership of businesses.

Answer: A

Explanation: Minimizing taxes and fewer government regulations are favorable policies toward the creation of businesses.

Difficulty: 2 Medium

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

214) When corruption is present in the business environment:

- A) company leaders may threaten competitors and minimize competition.
- B) factories are easier to build without a government permit.
- C) it promotes fair competition.
- D) laborers can make more money.

Answer: A

Explanation: Governments should help to minimize corruption in business for several reasons. It's hard to do business in many poor countries because the governments ignore corruption among businesses and the governments are also corrupt. It's very difficult in such countries to get permission to build a factory or open a store without a government permit, which is obtained largely through bribery of public officials. Among businesses themselves, leaders can threaten competitors and minimize competition.

Difficulty: 2 Medium

Topic: The Private Enterprise System; The Impact of Information Technology on Business

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

215) Which of the following government policies would be **least** likely to encourage entrepreneurship?

- A) Passage of laws that enable businesspeople to write enforceable contracts
- B) Establishment of a currency that is tradable in world markets
- C) Establishment of strict regulations specifying exactly how products should be made to ensure safety and affordability
- D) Passage of laws that eliminate corruption in government and business

Answer: C

Explanation: One of the things governments can do to encourage entrepreneurship is keep business regulations to a minimum. Regulations may be desirable in other respects, but they tend to discourage entrepreneurship by making the formation and management of businesses more difficult and expensive.

Difficulty: 3 Hard

Topic: The Private Enterprise System; The Impact of Information Technology on Business

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

216) Blockbuster stores shuttered their doors but Netflix is still growing. Both companies participated in the video rental business. Netflix evaluated the lifestyle needs of video customers, understanding that time, family, and work obligations called for more convenient methods to receive video entertainment. Netflix embraced the opportunity to stream videos directly to customers and create their own content. The company also managed to keep customer costs down, by passing along the savings it realized in labor. Blockbuster did not pay enough attention to competitor movements, permitting Netflix to quickly capture video market share. Which external environment probably had the *least* effect on Netflix's success?

- A) Social environment
- B) Competitive environment
- C) Economic and legal environment
- D) Technological environment

Answer: C

Explanation: Netflix embraced new opportunities in technology to stream online. It also saw opportunities in the social environment. With single- and dual-income families pressed for time, customers are seeking added conveniences. Netflix differentiates its product, positioning itself as friendlier and cheaper. Blockbuster was very slow to react to competitive pressures. Although customers enjoyed the cheaper prices, the technological environment made it cheaper for Netflix to keep costs down and pass along savings to the customer. The economic downturn had little effect on this situation; and the firms operated within the legal limits of the law.

Difficulty: 3 Hard

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

217) A *New York Times* article about Bernie Madoff and his illegal Ponzi scheme stated, "When money goes global, fraud does too." Although the goal of investors who trusted Madoff's investment company was to earn the highest return possible on their investments, they turned a blind eye toward the fact that some of those returns were too good to be true. Individual investors, companies, and even charities lost large sums of money by investing with Madoff's company. Which of the following statements relates to this story?

- A) The unethical behavior of one company had a worldwide ripple effect that can impact the well-being of an economy.
- B) Too much regulation caused the capitalistic nature of Mr. Madoff's business model to fail.
- C) People lost money because of the fluctuations in world trading currencies, questioning the legitimacy of trading abroad.
- D) Investors did not sign contracts with Mr. Madoff's company. The government can only protect individuals and companies who sign enforceable contracts.

Answer: A

Explanation: Unethical behavior can have a steamrolling effect on business as consumers lose confidence and the overall effect on the economy turns negative.

Difficulty: 3 Hard

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Apply

AACSB: Ethics

Accessibility: Keyboard Navigation

218) Chao sells custom bicycles. He buys several bike parts including wheels and tires from Upright Strides, Inc. Although several government-supported regulations help Chao in his business, regulations that make it easy for his business to enjoy good vendor relationships are

- A) lower taxes that business-to-business customers pay to each other.
- B) laws that permit minimal corruption in banking institutions.
- C) laws that permit small businesses to use the government as an intermediary when doing business with other small businesses.
- D) laws that support enforceable contracts between firms.

Answer: D

Explanation: Without enforceable contracts between firms, small and large businesses cannot efficiently conduct business. The government can lessen the risks of entrepreneurship by passing laws that enable people to write good business contracts that are enforceable in court.

Difficulty: 3 Hard

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Analyze

AACSB: Analytic Thinking

Accessibility: Keyboard Navigation

219) Walter Waterson owns a lawn irrigation system business. He manages the installations and maintenance of these systems. Several customers are golf courses, but he serves a large group of residential customers as well. When he started the business 10 years ago, he promised to always operate within the legal limits of the law, but lately, the competition is eating him alive. Large competitors have hired illegal immigrants to perform the manual labor, and they do not pay taxes on these employees—they just pay them in cash at the end of the week. Employment taxes are a burden to him. Walter does not want to hire illegal workers. There's a risk if you permit an illegal worker to drive a truck; or, if he/she has an accident on the job. You have just studied business ethics in your class. You inform Walter that

A) taxes only need to be paid for the owners.

B) he is not only taking a chance that a bigger problem may occur, he is indirectly setting the ethics code for his business.

C) small businesses may not be able to worry about ethics codes. These types of documents are better suited for big business.

D) it is not unethical to try to better the lives of others. Everyone needs jobs.

Answer: B

Explanation: As will be read in Chapter 4, management's business ethics sets the tone for the company's value system. Corruption and illegal activities at some companies do negatively affect the business community as a whole.

Difficulty: 3 Hard

Topic: The Ethical Concerns that Affect Business

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Apply

AACSB: Ethics

Accessibility: Keyboard Navigation

220) The emergence of an information-based economy are important parts of the _____ environment in which businesses operate.

A) economic and legal

B) technological

C) competitive

D) global

Answer: B

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

221) Technology affects people in:

- A) all industries.
- B) most industries.
- C) information technology industries with the exception of agriculture.
- D) primarily high-income countries.

Answer: A

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

222) Employers provide tools and technology for their employees in order to:

- A) increase the cost of production and profitability.
- B) improve their efficiency and productivity.
- C) reduce corruption in business and eliminate scandals.
- D) encourage the private ownership of businesses.

Answer: B

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

223) Efficiency means:

- A) producing the desired result.
- B) producing goods and services using the least amount of resources.
- C) the amount of output you generate given the amount of input.
- D) the buying and selling of goods using the most amount of resources.

Answer: B

Difficulty: 1 Easy

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

224) _____ refers to the amount of output generated with a given amount of input, e.g., the number of pizzas produced per worker per hour.

- A) Efficiency
- B) Technology
- C) Telecommuting
- D) Productivity

Answer: D

Difficulty: 1 Easy

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

225) _____ means producing the desired result.

- A) Effectiveness
- B) Technology
- C) E-production
- D) Productivity

Answer: A

Difficulty: 1 Easy

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

226) _____ means producing items using the least amount of resources.

- A) Efficiency
- B) Technology
- C) E-production
- D) Productivity

Answer: A

Difficulty: 1 Easy

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

227) The two main types of e-commerce are:

- A) online and offline.
- B) EDI and EDC.
- C) wholesale and retail.
- D) B2B and B2C.

Answer: D

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

228) When businesses sell to other businesses online, these transactions are known as:

- A) B2C transactions.
- B) e-wholesale transactions.
- C) B2B transactions.
- D) intermediate e-commerce transactions.

Answer: C

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

229) Companies that sell goods to consumers online are engaging in _____ transactions.

- A) B2C
- B) IOU
- C) B2B
- D) Y2K

Answer: A

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

230) The series of lines on a product packaging that the cashier scans when you check out at a grocery store or discount store is called a

- A) bar code.
- B) zip code.
- C) scan code.
- D) laser code.

Answer: A

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

231) An electronic storage file where firms keep customer information is known as a(n) _____.

- A) MP3 file
- B) management information system
- C) database
- D) e-mail server

Answer: C

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

232) _____ is illegally obtaining and illegally using private information about a person, such as using someone's credit card number.

- A) Petty theft
- B) Identity theft
- C) Banking theft
- D) Online theft

Answer: B

Difficulty: 1 Easy

Topic: The Risks Associated with Information Technology

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

233) One advantage of a database is it

- A) permits a retail store to directly gather information on the customers who do business with its competitors, so it can target promotional materials to those people.
- B) creates efficiency in that the store can quickly replenish items that are purchased.
- C) prevents identity theft.
- D) prevents stores from exchanging customer information with each other.

Answer: B

Difficulty: 1 Easy

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

234) Which of the following is an advantage of utilizing technology?

- A) Technology increases the cost of production.
- B) Technology reduces the need for a marketing plan.
- C) Productivity increases.
- D) Management becomes isolated from the demands of stakeholders.

Answer: C

Explanation: Technology is everything from phones to software programs that make businesses more efficient and productive. Productivity is the amount of output you generate given the amount of input.

Difficulty: 2 Medium

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

235) Which of the following best describes the main difference between B2B and B2C transactions?

- A) B2B transactions involve transactions where the buyers and sellers are both businesses, while B2C involves transactions between businesses and consumers.
- B) B2B transactions focus on financial transactions while B2C e-commerce focuses on the sale of manufactured goods.
- C) B2B transactions refer to business between nonprofit organizations while B2C e-commerce is carried out by business firms seeking to earn a profit.
- D) B2B transactions involve sales in foreign markets while B2C e-commerce is restricted to domestic markets.

Answer: A

Explanation: B2B stands for business-to-business and B2C stands for business-to-consumer.

Difficulty: 2 Medium

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

236) In recent years, businesses in general have experienced a lasting impact due to the emergence of

- A) motor-related technologies
- B) technologies related to brain studies
- C) counterfeit technologies
- D) information technologies

Answer: D

Explanation: Tools and machines developed throughout history have changed the technological environment. Information technology benefits workers in all industries and provides businesses with the ability to be more responsive to customer needs.

Difficulty: 2 Medium

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

237) NetKnowledge is an online company that provides support services for businesses that need help in setting up and maintaining their websites. NetKnowledge is an example of a company that is engaged in _____ e-commerce.

- A) B2C
- B) N2Y
- C) Y2K
- D) B2B

Answer: D

Explanation: Since NetKnowledge is providing services to other businesses over the Internet, it is engaging in business-to-business (B2B) transactions.

Difficulty: 3 Hard

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

238) Lux Ladies, Inc., is a company that specializes in expensive and unusual gifts for all occasions. It keeps a large file of information on all of its regular customers, including names, addresses, and type of gifts they have ordered in the past, and the size and frequency of their orders. The electronic file which stores this information is a(n)

- A) spreadsheet.
- B) MP3 file.
- C) PERT file.
- D) database.

Answer: D

Explanation: A database is an electronic storage file where information is kept.

Difficulty: 3 Hard

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

239) New orders are coming in quickly for SmartTech, and management is confident that new contracts will take them through the next couple of years. The company has started investing again, but not in people. The number of employees is the same as when the company and its competitors faced the Great Recession. Most likely due to _____, the company is producing more product and services with less people.

- A) the lack of skilled labor
- B) new competition
- C) social changes
- D) technological advancement

Answer: D

Explanation: Due to the efficiency of new technology, businesses can produce the same or more, with less labor. As we emerged from the Great Recession, unemployment remained high because firms invested in technology that permitted them to produce at pre-recession levels with fewer employees.

Difficulty: 3 Hard

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Apply

AACSB: Knowledge Application; Analytic Thinking

Accessibility: Keyboard Navigation

240) Which of the following predictions about the impact of e-commerce on traditional businesses is the most accurate?

- A) E-commerce will have little impact on most traditional businesses, because only a few types of products can be sold effectively online.
- B) Traditional brick-and-mortar firms will enter the e-commerce market by creating their own websites.
- C) E-commerce will prove to be very successful in competing against traditional firms in B2C markets, but will have much less success in B2B markets.
- D) Brick-and-mortar businesses will cease to exist within 20 years.

Answer: B

Explanation: Businesses that provide their customers with quality products at good prices with great service will succeed. Established firms have quickly adapted the technology necessary to compete in the e-commerce market.

Difficulty: 3 Hard

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

241) Tyler Brown recently noticed that he was seeing more Facebook advertisements than he had in the past even though he had not requested any of them. Which of the following best explains why this is happening?

- A) Tyrell was a victim of identity theft.
- B) Tyrell gave his personal information to a business, which then traded it to other companies, and these companies then began targeting their advertisements.
- C) All businesses routinely have all customers' personal information.
- D) Tyrell's accountant gave his information to the marketers.

Answer: B

Explanation: The information Tyler gave a business when he purchased something from it was entered into its database and then traded to another company so that many more retailers know what Tyler buys and from whom he buys it.

Difficulty: 3 Hard

Topic: The Private Enterprise System

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

242) Klara wants to compare the price of a wallet she saw at Nordstrom Rack with other stores that may have the same wallet. She locates the product on three different websites, including Amazon. Klara's quest is an example of how customers are using _____ to solve problems.

- A) price shopping
- B) databases
- C) information technology
- D) social networking

Answer: C

Explanation: The Internet has led to the growth of e-commerce. Customers can interactively use the Internet to compare items, their quality, and price. It has dramatically changed the shopping experience.

Difficulty: 3 Hard

Topic: The Risks Associated with Information Technology

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

243) Sean McGowan renewed his membership at Bargain Barn. Shortly after renewing the card, Sean started receiving calls from collection agencies claiming that he owed money. He quickly learned that another Sean McGowan also owned a Bargain Barn card and missed many payments. Bargain Barn had linked Sean's personal information with the other Sean McGowan's personal information. Sean experienced

- A) buyer's remorse.
- B) database fraud
- C) information trafficking
- D) identity theft

Answer: D

Explanation: Identity theft is obtaining private information about a person, such as Social Security number and/or credit card number, and using that information for illegal purposes, such as buying things with it.

Difficulty: 3 Hard

Topic: The Risks Associated with Information Technology

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

244) Opportunities and advancements in the technological environment during the past 20 years have opened the doors for a number of products that enhance the lives of consumers. Identity theft and other forms of cybercrime are also by-products of these technological advancements. Which of the following statements describes a form of identity theft?

- A) Smartphone apps that permit the consumer to price compare by scanning the barcode of a product, such as a cell phone.
- B) Hacking into a business's database to obtain customer credit card numbers, and then selling those numbers to others for use.
- C) GPS technology that permits you to find the exact location of a person, by entering that person's phone number into your application.
- D) The application of *cookies* to a consumer's computer system that identify his/her purchasing patterns.

Answer: B

Explanation: It is a criminal offense to participate in unauthorized entry into a company's private (internal) database, where sensitive information, such as credit card numbers, is stored.

Difficulty: 3 Hard

Topic: The Risks Associated with Information Technology

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Apply; Analyze

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

245) Hussein got a call yesterday from First Bank, the company that issued his credit card inquiring about an \$105.00 charge made in Buenos Aires, Argentina. Upon learning that Hussein was in Detroit and had not made this purchase, the bank quickly took steps to cancel the card and issue a new one. Given the circumstances that Hussein's credit card number had an illegal transaction, he may also want to

- A) check his computer's firewall to make sure it's working.
- B) cancel his account and eliminate credit cards from his life.
- C) change his passwords and store them in a password manager.
- D) diversify his spending habits by using one of several credit cards when making purchases.

Answer: C

Explanation: Taking preventative measures in protecting your passwords is an important step in preventing identity theft.

Difficulty: 3 Hard

Topic: The Risks Associated with Information Technology

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

246) In today's competitive environment, good value means:

- A) making products with zero defects.
- B) superior quality that translates into durable products.
- C) offering the latest trends without seeming like you are over the top.
- D) providing quality products and services at competitive prices.

Answer: D

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

247) Successful businesses are keenly focused on their

- A) customers.
- B) managers.
- C) creditors.
- D) bureaucrats.

Answer: A

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

248) Empowerment means:

- A) giving employees the authority to make decisions.
- B) making certain that employees always defer to management when making decisions.
- C) hiring employees that do not require training due to the costly nature of this activity.
- D) asking employees to write the policies which govern their jobs.

Answer: A

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

249) Empowerment requires managers to focus more on _____ lower-level employees.

- A) directly supervising
- B) training
- C) simplifying the jobs of
- D) controlling and correcting

Answer: B

Difficulty: 1 Easy

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

250) To implement a policy of empowerment, the organization will restructure so that:

- A) managers have more responsibility and employees learn to follow directions.
- B) employees assume more responsibility.
- C) workers agree to work overtime without extra pay.
- D) an entire level of management is removed from the organization.

Answer: B

Explanation: Empowering employees leads to developing entirely new organization structures to meet the changing needs of customers and employees. It may take years to restructure an organization so that managers are willing to give up some of their authority and employees are willing to assume more responsibility.

Difficulty: 2 Medium

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

251) Which of the following statements about the competitive environment is most accurate?

- A) Firms that produce a quality product will always succeed in the competitive marketplace.
- B) Traditional firms will be unable to successfully compete against the new online firms unless they immediately create a way to reach customers through the Internet.
- C) Firms that empower their employees will continue to perform poorly in the competitive environment.
- D) Companies now have to offer both high-quality products and outstanding service at competitive prices.

Answer: D

Explanation: Companies now have to offer both high-quality products and outstanding service at competitive prices (value).

Difficulty: 2 Medium

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

252) In order to compete well and gain market share, contemporary businesses are changing to be more

- A) customer-driven.
- B) cash-driven.
- C) management-driven.
- D) production-driven.

Answer: A

Explanation: Competition among businesses has never been greater. The nature of the competitive environment has encouraged businesses to offer high-quality products and outstanding service. The goal is to be customer-driven.

Difficulty: 2 Medium

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

253) Juan is a salesperson for Floor Masters, Inc. He really appreciates the amount of freedom and authority the company gives its sales people in order to better meet the needs of customers. Juan's experience suggests that Floor Masters practices

- A) centralized management.
- B) fast response theory.
- C) enfranchisement.
- D) empowerment.

Answer: D

Explanation: Empowerment means giving frontline workers more freedom to respond quickly to customer requests.

Difficulty: 3 Hard

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

254) Gina is working as a marketing trainee for a streaming video company. Her boss called a meeting for next week with one thing on the agenda: "Bring with you your ideas about how we can gain a competitive advantage." Gina plans to provide the following response:

- A) Create a management-driven environment with lots of employee training.
- B) Create a customer-driven environment where we constantly try to create customer value.
- C) Restructure the organization so that there is always a manager on duty to chat with online customers who are having problems with their orders.
- D) Always match the promotions of our competitors; price is the only thing customers care about.

Answer: B

Explanation: Businesses must be customer-driven. While consumers demand high quality, they also have come to expect reasonable prices and exceptional service. In today's highly competitive business environment, providing a quality product is no longer enough. Consumers and industrial buyers now expect more.

Difficulty: 3 Hard

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

255) Tabitha called in a food order to feed her office team. When she arrived to pick up, it was not what she ordered. The store associate quickly made it right, and offered an extra dozen bagels to make up for the mistake. There was no need to check with the supervisor, as the employee was _____ to make decisions that translate into good customer service.

- A) structured
- B) empowered
- C) asked by the customer
- D) deputized

Answer: B

Explanation: Empowerment means permitting employees to make decisions in the process of doing their job.

Difficulty: 3 Hard

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

256) Which of the following statements best describes how firms must treat their frontline workers in order to remain competitive? Frontline workers must be _____.

- A) empowered with the authority to respond quickly to the unmet needs of customers
- B) closely supervised to reduce the risk of product liability and discrimination lawsuits
- C) eliminated and replaced with automated equipment whenever possible
- D) relieved of any burden to make a customer decision

Answer: A

Explanation: In order to meet the needs of customers, firms must give their frontline workers more freedom to respond quickly to customer requests. This is the concept of empowerment, which is an important theme throughout the text.

Difficulty: 3 Hard

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

257) Markus is in charge of production for a family-owned company that makes and sells kitchen utensils. He has stated that speed of delivery is the most important factor for success in the competitive environment. Which of the following would be the best response to Markus?

- A) You are right on target, Markus. Time is money.
- B) You are the man, Markus. As long as our price is competitive, speedy delivery will win in today's changing marketplace.
- C) Well Markus, speed isn't everything. What would exceed our customers' expectations? Some consumers may put more importance on high quality and/or lower prices.
- D) Dude, you couldn't be more wrong. Quality is the name of the game. He who has the best product will win in the competitive environment.

Answer: C

Explanation: Successful organizations are customer-driven. This means that customers' wants and needs are the first priority. All decisions are focused on the blend of price, service, and quality that will best delight the customers.

Difficulty: 3 Hard

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

258) The statistical study of human population to learn its size, density, and characteristics is called

- A) psychographics.
- B) econometrics.
- C) demographics.
- D) geometrics.

Answer: C

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

259) Businesses collect _____ information on where people live, what they buy, and how they spend their time.

- A) geometric
- B) econometric
- C) demographic
- D) anthropologic

Answer: C

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

260) Diversity is more than recruiting and keeping minorities. Diversity means appreciating and understanding other differences in our customers and in our workforce. The best description of these differences is:

- A) people with disabilities, people with different sexual orientations, religious preferences, and even personality differences such as extraverts and introverts.
- B) gender roles.
- C) surface-level things such as green eyes versus brown eyes.
- D) racial differences and gender differences.

Answer: A

Difficulty: 1 Easy

Topic: Cultural Diversity in the Workplace

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Diversity

Accessibility: Keyboard Navigation

- 261) Efforts are under way to serve the needs of a diverse population. Diversity means:
- A) selling products to immigrants.
 - B) dealing sensitively with workers and cultures around the world.
 - C) providing government programs such as free health care for illegal and legal immigrants.
 - D) meeting employment quotas so that diverse groups are always represented in your workforce.

Answer: B

Difficulty: 1 Easy

Topic: Cultural Diversity in the Workplace

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Diversity

Accessibility: Keyboard Navigation

- 262) Due to population shifts,
- A) businesses that cater to older consumers will see higher growth.
 - B) businesses that cater to older consumers will see slower growth.
 - C) businesses that sell electronic devices will see a significant decline.
 - D) health care will emerge as the only business sector that will grow.

Answer: A

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 263) Which of the following industries will most likely benefit from an aging population?
- A) Financial services to help clients plan for their education
 - B) Home health care businesses
 - C) Children's day-care centers
 - D) Auto industry

Answer: B

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

264) The Social Security system:

- A) continues to burden businesses due to the fact that businesses must provide and pay for this benefit for their employees.
- B) met the needs of our nation when it was first introduced, but needs an overhaul.
- C) will continue to serve the needs of U.S. citizens into the distant future, due to the fact that there are so few retirees placing a strain on it.
- D) is failing because the U.S. government failed to invest the money that employees contributed.

Answer: B

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

265) People over 65 years old represent

- A) the unemployed generation.
- B) the single-parent family generation.
- C) a potentially lucrative market.
- D) a group that has never contributed to Social Security.

Answer: C

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

266) Businesses are supporting single-parent families with:

- A) Social Security benefits.
- B) a more lenient welfare system.
- C) more flexible work benefits such as flextime and family leave.
- D) limited benefits due to the declining numbers of these families.

Answer: C

Difficulty: 1 Easy

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 267) Which of the statements about demography is most accurate? Demographic studies:
- A) focus on factors that have great political relevance, but little relevance to business firms.
 - B) suggest that the number of single-parent families is declining.
 - C) provide businesses and individuals with insights into business and career opportunities for the future.
 - D) are an important source of information about changes in health patterns.

Answer: C

Explanation: Demography is the statistical study of the human population to learn its size, density, and characteristics. Demographics can provide important insights into which markets are growing and which are declining.

Difficulty: 2 Medium

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 268) Which of the following business policies would most likely help a single-parent family?
- A) Requiring the employee to work regularly scheduled hours each day
 - B) Allowing sick leave to be used only if the employee is ill
 - C) Requiring education outside of regular business hours to help the employee advance
 - D) Allowing family leave and flextime

Answer: D

Explanation: Single parents have convinced some businesses to implement programs such as family leave (where workers can take time off to attend to a sick child) and flextime (where workers can come in or leave at selected times).

Difficulty: 2 Medium

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 269) The immigrant population (both legal and illegal) is having the most dramatic effect on
- A) car and truck makers.
 - B) mining and minerals industry.
 - C) schools, hospitals, and other services industries.
 - D) ice cream and confection industry.

Answer: C

Explanation: The service industry is greatly impacted by immigration. As the immigrant population increases, more social services are needed, particularly health services and education services. The government costs have increased due to the need for accommodations in several different languages.

Difficulty: 2 Medium

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 270) Retired people will be draining the U.S. economy of wealth. This is due to
- A) the fact that most have smoked all their lives and now are accumulating large healthcare bills.
 - B) the fact there are not enough workers in subsequent generations to support the ongoing drain of older persons into the Social Security system.
 - C) their lack of interest in supporting restaurants, resorts, educational institutions, and service-intensive companies.
 - D) the fact that they refuse to use current information technology to improve efficiency.

Answer: B

Explanation: A particular situation that will be negatively impacting the social environment is the number of aging Americans and the drain on the Social Security system. Today's workers pay for today's retirees. When the system was enacted in 1940, there were 42 workers for each retiree. Today the ratio has become much smaller. With baby-boomers retiring, the ratio is projected to drop to two workers for every one retiree by 2030.

Difficulty: 2 Medium

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

271) If you were to discuss and analyze the social changes affecting the future of business, which of the following statements should be part of that conversation?

A) It is becoming more difficult to provide expert pre-natal care for women, resulting in a negative impact on the future of childbirth.

B) The increase in older citizens may impact an employee's take-home pay if programs such as Social Security will need to be funded at a higher level. Skilled employees may require higher wages to make up the shortfall.

C) With less money to spend, older Americans over 65 will no longer require transportation, entertainment, education, and lodging. This is highly likely to negatively impact these industries.

D) Business taxes are very likely to spike due to the fact that welfare laws are making it relatively easy for single parents to stay home with their children, rather than find jobs.

Answer: B

Explanation: The increasing rate and number of retiring workers have impacted the U.S. Social Security system put in place by President Franklin D. Roosevelt in the 1940s. It is currently a hot topic affecting the social environment of businesses by how much of their earnings current employees will need to contribute or whether current employees should have to contribute to this system. Many young employees speculate that the Social Security fund will run out of money by the time they are ready to retire.

Difficulty: 2 Medium

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

272) Casey is looking into opening a day care in her community. She is aware of many single-parent families that need a place for their children to stay while they work, but she is concerned about the long-term prospects for such a business. Casey thinks the future of her day care will depend on whether birth rates and the number of single-parent families keep growing. These concerns illustrate how businesses can be affected by _____ trends.

A) econometric

B) demographic

C) holographic

D) psychometric

Answer: B

Explanation: Demography is the statistical study of the human population to learn its size, density, and characteristics. Birth rates and the number of single-parent families are both demographic factors.

Difficulty: 3 Hard

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

- 273) HealthLink Hospital is looking into introducing a flextime program for its employees. A group of workers who would probably benefit from flextime is
- A) workers who do not have access to computers at home.
 - B) workers who have little self-motivation to work eight-hour days.
 - C) frontline workers who frequently go out to meet with home furnishing designers.
 - D) single-parent families.

Answer: D

Explanation: Flextime is the practice of coming in or leaving work at selected times. This allows workers with young children the flexibility they often need.

Difficulty: 3 Hard

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

274) Pets on the Run, Inc., a mobile pet care company, is planning for the future. As a business student who has studied social trends, which of the following statements reflects the need for Pets on the Run's service in the future?

- A) Mobile pet care will not be needed because the majority of people are working which means that nobody is home.
- B) People will always prefer to take their pets to the veterinary clinic and groomer.
- C) The aging population will be a sizeable market for this firm.
- D) People who would require this service would be higher income individuals. Retired people would not be a market for this firm because they do not have money to care for pets.

Answer: C

Explanation: People are living longer and living longer in their homes. There are many business opportunities to serve the aging population. As pets have become important family members, the aging population is likely to be a sizeable market for pet care and in-home pet care.

Difficulty: 3 Hard

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

275) The global environment:

- A) is a new frontier.
- B) is far reaching and affects all the other business environments.
- C) is shrinking.
- D) has not affected the United States due to its strong gross domestic product.

Answer: B

Difficulty: 1 Easy

Topic: Globalization

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

276) The threat of terrorism more often _____ the cost of operating a business.

- A) increases
- B) decreases
- C) stabilizes
- D) destabilizes

Answer: A

Difficulty: 1 Easy

Topic: Globalization

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

277) An increase in global trade will:

- A) increase prices.
- B) decrease jobs.
- C) increase political instability.
- D) increase global competition.

Answer: D

Difficulty: 1 Easy

Topic: Globalization

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

278) Globalization

- A) has greatly improved living standards around the world.
- B) has significantly reduced living standards around the world.
- C) has opened doors to only a handful of markets.
- D) has greatly changed companies that hire people to sell products, but not companies that hire people to provide services.

Answer: A

Difficulty: 1 Easy

Topic: Globalization

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

279) Greening refers to

- A) the need for more carbon dioxide in our air.
- B) firms acquiring more greenbacks (U.S. dollars) from world trade.
- C) finding ways to save energy and lessen the harm on our environment.
- D) the agricultural industry's push to develop and produce new green vegetables to feed the world.

Answer: C

Difficulty: 1 Easy

Topic: Globalization

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

280) Efficiency in distribution systems around the world has led to

- A) increased world trade.
- B) decreased world trade.
- C) decreased international competition.
- D) reduced standards of living around the world.

Answer: A

Explanation: Two things that have led to more trade are efficiency in distribution and communication.

Difficulty: 2 Medium

Topic: Globalization

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

281) Airline companies around the world are experiencing increased costs in part due to

- A) decreases in the cost of fuel.
- B) decreasing world trade.
- C) the threat of terrorism.
- D) lack of interest in flying.

Answer: C

Explanation: The threat of terrorism has led to increased costs for airlines. They have had to install stronger cockpit doors, buy more security equipment, and hire new security personnel.

Difficulty: 2 Medium

Topic: Globalization

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

- 282) War and terrorism in many parts of the world should lead to
- A) a decrease in warring nations.
 - B) consumers spending more because they feel more patriotic.
 - C) an increase in prosperity and peace throughout the world.
 - D) consumer and economic hardship due to increased military spending.

Answer: D

Explanation: War and terrorism will cause hardships for consumers and the economy due to the movement of government funds from social programs and issues to military spending.

Difficulty: 2 Medium

Topic: Globalization

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

283) World trade has both benefits and costs. Which of the following statements best attests to this fact?

- A) The U.S. economy and all businesses that participate in this economy were negatively impacted by recent wars.
- B) The standard of living for citizens in developing nations has significantly decreased due to globalization.
- C) Economists are convinced that global job creation will never occur if our politicians support world trade.
- D) Large companies and small companies agree that the green movement is a global issue. Firms are embracing opportunities to bring value to consumers by creating green products and services.

Answer: D

Explanation: The green movement has provided many opportunities for new business offerings. The other statements are false.

Difficulty: 2 Medium

Topic: Globalization

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

284) The green movement is

- A) a trend that started with the U.S. government.
- B) concerned with depletion of natural resources.
- C) developing more green food products to feed the world's poor.
- D) our concern with the fact that everywhere we look, things are remaining green for longer periods of time.

Answer: B

Explanation: The greening trend is about saving energy and natural resources and concern with what we leave behind.

Difficulty: 2 Medium

Topic: Globalization

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

285) The threat of terrorism

- A) benefits most businesses because just about all companies contribute toward averting these threats.
- B) will certainly affect companies that participate in global trade, but most large U.S. companies do their business domestically.
- C) has increased the quality of life of most people because companies employ more workers when the threat is high, and workers help companies increase profits.
- D) is costly to most firms because it is costly to governments who increase taxes to pay for added protection.

Answer: D

Explanation: The threat of terrorism adds greatly to business costs, including the cost of security personnel, security equipment, and insurance. The government has also experienced huge costs increases because of homeland security issues. While many businesses will struggle in this new environment, others stand to gain; particularly those in the defense industry.

Difficulty: 2 Medium

Topic: Globalization

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

286) According to the box, "Hollywood Climbs the Great Wall," Chinese investors are not only distributing Hollywood films in their home country, they are also

- A) producing films to distribute in South America.
- B) buying companies that manufacture cameras and sound equipment.
- C) creating theatrical education programs in the nation's universities.
- D) investing in American entertainment companies and working to make China a moviemaking power.

Answer: D

Explanation: Chinese investors are not just interested in distributing Hollywood films. They're also investing in entertainment companies in the U.S., like AMC Theatres.

Difficulty: 2 Medium

Topic: Globalization

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Understand

AACSB: Reflective Thinking

287) Tomas recently graduated with honors from his college. He has bragged to his friends that his academic performance has prepared him so well for a successful career that he can find a job with ease and forget school or training in his future. In evaluating the future of the workplace, Tomas is

- A) exactly right. His past performance should carry him to success.
- B) completely wrong. Studies show that a college education has little to do with success.
- C) overconfident. Global competition means that continuous learning will be needed in the future to adapt to rapid changes.
- D) probably right. Specialized training today is a key to continued success in the future.

Answer: C

Explanation: The highly competitive nature of the global economy and rapid changes in technology mean that students must keep their skills and knowledge up to date even after they graduate.

Difficulty: 3 Hard

Topic: Globalization

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

288) Dennis and Donna recently moved to Kansas on a three-acre site. They purchased their home within biking distance to the hospital where they work, and their bikes have room for groceries if they need to purchase food on the way home, although they plan to grow some crops on their own. Dennis and Donna are examples of a growing number of people who

- A) have developed a health-conscious attitude.
- B) want to change their lifestyle to be more in tune to saving energy.
- C) dislike urban centers and wish to live in the country.
- D) stay away from urban areas due to increased threats of terrorist attacks in those localities.

Answer: B

Explanation: An important social trend is saving energy and producing products that cause less harm to the environment, or going green.

Difficulty: 3 Hard

Topic: Globalization

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

289) Which of the following statements describes a recurring theme about today's ecological environment?

- A) Most people agree that there is strong evidence that the temperature of the planet is going down.
- B) Smart businesses know that green business is currently a trend and they should proceed with caution because most green initiatives are more costly than wars and terrorism.
- C) There is a strong push by customers for businesses to develop products and services that clearly save energy.
- D) Clearly, the greening issue is an American trend that has not captured the attention of the international business community.

Answer: C

Explanation: Ecologically, customers want businesses to sell products and services that do not leave a carbon footprint. The greening movement is a well-respected movement with global implications.

Difficulty: 3 Hard

Topic: Globalization

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

290) Bart Broekelman recently returned from Afghanistan where he was a member of the highly skilled special operations forces. He is now back home in the United States where he uses the G.I. Bill in order to go to school. This is one example of

- A) how an event such as a war educates young people about conditions abroad.
- B) the cost of war.
- C) the benefits of war on education.
- D) a squeeze on employer benefits.

Answer: B

Explanation: Wars are very costly. The government diverts funds from other services to pay for wars. In order to provide incentives for young men and women to serve in the military, the government also pays for benefits for those that return.

Difficulty: 3 Hard

Topic: Globalization

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

291) Since the 1800s, the U.S. has evolved

- A) straight from an agrarian economy to an information technology economy.
- B) from a business to business economy to a business to consumer economy.
- C) from an agrarian economy to a manufacturing economy to a service-oriented economy.
- D) from a manufacturing economy to a service economy, to a cottage economy, and now we are trending back to an agrarian economy.

Answer: C

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

292) Businesses that produce and sell tangible products such as steel and machines are part of the
A) manufacturing industry.
B) knowledge-based industry.
C) service industry.
D) production sector.

Answer: A

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

293) The service industry represents about _____ of the value of the U.S. economy.
A) 30%
B) 50%
C) 60%
D) 80%

Answer: D

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

294) Health care, insurance, recreation, and other intangible products are provided by the
A) information-based sector.
B) service industry.
C) industrial sector.
D) manufacturing industry.

Answer: B

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

295) Since the beginning of the 1900s, the agricultural sector of the United States has:
A) seen the number of family farms more than double.
B) become less and less competitive in the global economy.
C) produced a consistent output per farm.
D) experienced a significant drop in employment, mainly because of tremendous improvements in efficiency.

Answer: D

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

296) In recent years, almost all new job creation in the U.S. has occurred in the _____ sector.

- A) service
- B) manufacturing
- C) agricultural
- D) telecommunications

Answer: A

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

297) The new era of business is likely to be dominated by the

- A) service sector.
- B) information-based sector.
- C) manufacturing sector.
- D) continued decline in productivity.

Answer: B

Difficulty: 1 Easy

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Remember

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

298) Appliance repair firms, tax consultants, law firms, and insurance companies are all business firms that are part of the _____ sector.

- A) production
- B) management
- C) neo-industrial
- D) service

Answer: D

Explanation: All of these companies provide an intangible product. Thus, they are included in the service sector.

Difficulty: 2 Medium

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

299) Manufacturing firms in the U.S. have consistently been laying off workers. The best explanation of this trend is that

- A) firms have been trying to weaken unions by reducing their reliance on labor.
- B) workers in the U.S. have become less productive and are no longer able to compete in the global economy.
- C) firms in many industries have become so efficient that they need fewer workers.
- D) the economy has been in a prolonged depression that has lasted more than a decade.

Answer: C

Explanation: While layoffs in manufacturing seem to imply that American firms are becoming less competitive, the opposite is actually the case. The layoffs are the result of tremendous improvements in productivity in recent years, which have enabled U.S. manufacturing firms to produce more goods with fewer workers.

Difficulty: 2 Medium

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

300) Which of the following best describes recent job growth in the service sector?

- A) The service sector has generated almost all new jobs in the American economy since the mid-1980s, but the rate of job growth in services has slowed in recent years.
- B) Jobs in the service sector have increased slowly over the past decade, but most new jobs are created in the manufacturing industries.
- C) Employment in the service sector has declined in recent years, and this decline is expected to continue.
- D) There has been little change in the number of jobs in the service sector in recent years; however, employment is expected to increase rapidly.

Answer: A

Explanation: The service sector has grown rapidly over the past two decades. However, the growth rate has slowed in recent years.

Difficulty: 2 Medium

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Understand

AACSB: Reflective Thinking

Accessibility: Keyboard Navigation

301) According to the box, "Services Expand the Circular Economy," technology is helping turn products into services by

- A) restricting what customers can and cannot buy for personal use.
- B) producing items that are designed to reach obsolescence quickly.
- C) offering new ways to access items like movies or music and by adding sensors to allow companies to develop new business models.
- D) developing more disposable items.

Answer: C

Explanation: Products we commonly would buy, like DVDs and CDs, are now being streamed on demand.

Difficulty: 2 Medium

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Understand

AACSB: Reflective Thinking

302) Which of the following organizations is an example of the goods-producing sector of the economy?

- A) Samsung Electronics
- B) Princeton University
- C) Bank of America
- D) Barnes Hospital

Answer: A

Explanation: Firms in the goods-producing sector produce tangible products. Of the organizations listed in this question, only Samsung produces a tangible product.

Difficulty: 3 Hard

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

303) Certain industries of the U.S. economy, such as farming and heavy equipment manufacturing, have experienced a significant decline in employment. Which of the following best explains this job loss?

- A) The cause is a decline in the productivity of labor in these industries.
- B) Workers lost these jobs because technological advances increased productivity.
- C) The U.S. economy cannot compete in these industries any longer.
- D) Government regulations have eliminated profit opportunities in these industries.

Answer: B

Explanation: History shows that technology has allowed business organizations to be more productive and therefore require less labor. This scenario first was observed in agriculture as productivity increases resulted in fewer farm jobs. Technological improvements in manufacturing have also resulted in increased productivity and fewer jobs.

Difficulty: 3 Hard

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

304) Nairi is an information savvy, 20-something who is trying to select between two marketing job offers. She can either join a company that makes candles and other home scents, or she can join a company enhancing the LTE phone service. She is quite impressed that the home scent business is growing as the economy is starting to bounce back. She is also aware of

A) declines in the telecommunications business now that new cell phone service companies are springing up everywhere.

B) a decline in the domestic hardware market due to older Americans losing interest in keeping up their living quarters.

C) an information-based global revolution that might make her career at a telecommunications company more lucrative in the long run.

D) an increase in the price of the actual cell phones must indicate that there is still a great demand for phones.

Answer: C

Explanation: Futuristic business professionals believe we are in the midst of an information-based global revolution that will alter all sectors of the economy: agricultural, industrial, and service.

Difficulty: 3 Hard

Topic: The Private Enterprise System

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Apply

AACSB: Knowledge Application

Accessibility: Keyboard Navigation

305) Describe three ways that governments can foster entrepreneurship and encourage the creation of wealth.

Answer: One of the best things government can do is help decrease the risk of starting businesses. This strategy will increase entrepreneurship and subsequently increase wealth. The government can do this by keeping taxes and regulations to a minimum. High taxes and burdensome regulations increase the cost of doing business and undermine incentives to work hard and take risks. Laws that encourage entrepreneurship have been enacted all across the U.S. and the world. Entrepreneurs tend to favor those states and local areas where taxes are lowest and regulations are least restrictive.

Another way for government to actively promote entrepreneurship is to allow private ownership of businesses. This will create profit opportunities for individuals willing to take the risk of starting their own business. Successful new businesses help to create more jobs and income in their communities.

The government can pass laws that enable businesses to write enforceable contracts, thus reducing the risk of operating a business.

The government can establish a currency that is tradable in world markets, making it possible for firms to compete in world markets.

Government can pass and enforce laws that reduce corruption among government officials and businesses. Corrupt practices such as the need to bribe government officials to get contracts approved not only make it more expensive to do business, they also tend to undermine competition by giving the corrupt firms an unfair advantage.

Difficulty: 3 Hard

Topic: The Private Enterprise System; The Impact of Information Technology on Business

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Analyze

AACSB: Analytic Thinking

306) Describe how businesses can use technology to be more responsive to customers.

Answer: Businesses continually search for new technologies that will allow them to be more responsive to customer needs. Things such as bar-code technology, scanners for checkout counters and inventory systems, and databases are proving to be valuable tools for most businesses. Particularly, databases store customer information. They help businesses plan and replenish inventory more expediently, because management can determine exactly what was purchased and how often, and by whom.

The Internet has offered businesses a new way to reach customers, and a way to provide information to customers that help with buying decisions. Both B2B and B2C buyers and sellers converse online. The B2B market continues to expand as quickly as the B2C market.

Businesses are also responsive to customer privacy. Due to the increase in identity theft, companies sometimes promise to not share or sell customer information to other businesses or entities.

Difficulty: 3 Hard

Topic: The Impact of Information Technology on Business

Learning Objective: 01-04 Describe the effects of technology on businesses.

Bloom's: Analyze

AACSB: Analytic Thinking

307) Competition among businesses has never been greater. Identify and describe two ways that businesses can become more competitive.

Answer: Businesses can compete by exceeding customer expectations and empowering employees.

Businesses are becoming more customer-driven. They are putting the wants and needs of customers first, and adjusting their products, policies, and practices to make sure customers are satisfied. Keeping the customer happy means producing a good quality product, providing great service, and keeping prices low.

Businesses also compete by responding to the needs of their employees. In order to be more flexible and more responsive, many businesses have empowered their lower level employees, allowing them to make decisions and respond to the needs of customers without consulting management. For empowerment to work, managers must do a better job training, supporting, and motivating frontline workers. Managers will have to give up some of their authority and find ways to encourage workers to accept more responsibility.

Difficulty: 3 Hard

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Analyze

AACSB: Analytic Thinking

308) What is demography? Identify two demographic trends in the United States and discuss how they will impact U.S. businesses.

Answer: Demography is the statistical study of populations to learn about their size, density, and characteristics. The United States is experiencing several demographic trends that will have important impacts on how and where we live, what we buy, and how we spend our time:

Respecting Diversity. Diversity has come to mean much more than recruiting and keeping minority and female employees. Many more groups are now included in diversity efforts, including seniors, people with disabilities, people with different sexual orientations, atheists, religious, extroverts, introverts, married people, and singles. Companies have responded to this diverse customer base by hiring a more diverse workforce to serve them. Businesses will need to be sensitive to these cultural changes and find ways to optimize the contributions of people from different ethnic and cultural backgrounds. If handled correctly, this diversity can be a source of strength for American businesses.

Aging Population. There will be a large increase in the number of older Americans that will occur over the next few decades. This is the result of the aging baby-boom generation. As America ages, the markets for products that appeal to elderly consumers will grow. Thus, there should be a boom in the demand for medicine, retirement homes, home health care, and a variety of recreational goods. Retired people will also be draining the economy of wealth. Paying Social Security to senior citizens in the future will draw huge amounts of money from the economy. In the past, the government estimated that there were 42 workers for each retiree. Now it is projected there will be fewer than 2 workers for each retiree by 2030. People are living longer and the baby-boom generation is retiring.

Single-Parent Families. One final trend has been the rapid growth in the number of single-parent households. Single parents have encouraged businesses to offer programs such as flexible work schedules and family leave that will allow the parent to remain home with sick children.

Difficulty: 3 Hard

Topic: Competition

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Analyze

AACSB: Analytic Thinking

309) Describe what we mean by greening and thinking green. List five ways that people and businesses are participating in the green movement. List business opportunities that may emerge from this movement.

Answer: Greening refers to a movement to save energy and natural resources, to produce products and services that cause less harm to the environment.

Ways that people can contribute toward sustaining what we have include:

- heating or cooling their dwellings less.
- Using reusable bags when shopping.
- Using light bulbs and other home appliances that take less energy.
- Recycling glass, plastics, papers, aluminum, iron, steel, and other recyclable products.
- Buying products such as autos and trucks that are fuel efficient or hybrids.
- Walking and bicycling when possible.
- Using other sources of energy other than fossil fuels to heat and cool buildings.
- Flushing-out and recycling water.
- Purchasing locally grown produce and other foods to avoid added shipping.

Green business opportunities include businesses that haul away hazardous waste; green restaurants that only use green materials and serve locally grown foods; green construction companies that sell and install energy-saving products, including solar panels and green building materials that meet LEED certification (Leadership in Energy and Environmental Design); and organic farms.

Difficulty: 3 Hard

Topic: Corporate Social Responsibility

Learning Objective: 01-07 Identify what businesses must do to meet global challenges, including war and terrorism.

Bloom's: Analyze

AACSB: Analytic Thinking

310) Trace the evolution of American business. Identify the key trends, and discuss the implications these trends have for the future.

Answer: For most of our nation's history, the agricultural sector led the way. But now, the number of farmers make up less than 1 percent of today's population. This loss of farm workers was not a sign that farming was a declining industry. Rather, it reflected tremendous improvements in efficiency and productivity. Today American agricultural workers are so productive that more food can be produced with a small fraction of the workers employed a century earlier.

Many of the workers displaced by the rising productivity in agriculture found employment in the manufacturing sector, which expanded rapidly during the early 1900s. However, technological breakthroughs in manufacturing led to higher productivity. Eventually manufacturing firms were able to produce more output with fewer workers, and employment in manufacturing began to fall, just as in farming. Again, this was a sign of strength rather than decline.

Many workers who lost jobs in manufacturing found employment in the service sector. Since the mid-1980s this sector has generated almost all of the new job growth in the American economy. This is a very broad sector, and many (but certainly not all) jobs pay quite well. In fact, there are more high paying jobs in service industries than in manufacturing.

Although the service sector is likely to continue to grow, the rate of growth is likely to slow. The U.S. economy now seems to be leaving the service era and moving into an era that can be characterized as an information-based global revolution that will alter all sectors of the economy: agricultural, industrial, and service.

These trends suggest several lessons to keep in mind. First, declines in employment are often a sign of increased efficiency and improved productivity rather than declining competitiveness. Second, declines in employment in one sector do not necessarily mean the economy as a whole will suffer from higher unemployment or a loss of wealth. Historically, as employment in one sector declines, workers can move into other sectors where employment is growing. This transition can be painful, but it may benefit society as a whole and create more wealth in the long run. Finally, the evolution of the American business sector is not over. Workers today must be aware of the possibility of changes in the job market. The best strategy is to remain flexible, watch trends, and be ready and willing to move to where the jobs are.

The current consensus is that we are in the midst of an information-based revolution, where the global economy will set world quality standards for products and services. Businesses and governments will continue to support technologies that provide the necessary information to make better business decisions.

Difficulty: 3 Hard

Topic: The Evolution of Business

Learning Objective: 01-08 Review how past trends are being repeated in the present and what those trends mean for tomorrow.

Bloom's: Analyze

AACSB: Analytic Thinking

Mini-Case

Eli Moneybags works for Second Commercial Bank, one of the largest banks in the Southwestern U.S. He is a loan officer, specializing in mortgages. Tio Jaime, Eli's favorite (and wealthiest) uncle, passed away last month and left him a sizable amount of money. Eli is looking at the best way to invest his newly acquired wealth. He is considering many options, ranging from simply putting the money into a savings account to the possibility of starting his own business. Although his bank job pays well and offers pleasant working conditions, Eli is frustrated because he has little freedom or flexibility to deal with customers since every decision he makes must be approved by his supervisor. He is also a bit bored and looking for a new challenge. He thinks he might get a lot of satisfaction from owning his own business. Eli has not made a definite decision yet, but has talked to a lot of people searching for a good idea for a new business. If he can come up with an idea he likes, he might just quit his current job and use his inheritance to go into business for himself!

311) As he starts his research, Eli notices that some opportunities appear to be riskier than others. When considering various opportunities, Eli should keep in mind that

A) he will be better off picking a low-risk business opportunity, since the safest ones are usually the most profitable as well.

B) even though some opportunities appear riskier than others, the level of risk actually varies little from one opportunity to another.

C) high-risk business opportunities often have the potential for high returns as well.

D) government regulations are in place to protect investors and entrepreneurs from failure, so there is no need to worry about risk.

Answer: C

Explanation: In many cases, business opportunities that have the potential for earning high profits also carry a high level of risk. Investors must weigh profit and risk and choose opportunities that offer an acceptable trade-off between the two.

Difficulty: 3 Hard

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

- 312) Eli's frustration with his lack of freedom at work indicates that Second Commercial
- A) prefers the use of cross-functional teams rather than individual initiative.
 - B) has not adopted a strategy of empowerment.
 - C) knows that the best way to ensure good customer service is to closely monitor its lower-level employees.
 - D) is trying to please customers as well as other stakeholders.

Answer: B

Explanation: Empowerment means giving lower-level workers the freedom and flexibility to respond quickly to customers without consulting with managers.

Difficulty: 3 Hard

Topic: Competition

Learning Objective: 01-05 Demonstrate how businesses can meet and beat competition.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

313) Two of his friends approached Eli with a proposal to start a language school. Eli is fluent in English and Spanish, and also has an education degree. He is strongly considering the idea but wants to know if there is a growing demand for his services. He learns that an important demographic trend is

- A) the service sector is likely to decline in significance in the next few years.
- B) the number of young children in the U.S. will decrease significantly over the next few years as the population of the country levels off.
- C) the number of immigrants from South and Central America is increasing steadily in his area and across the nation. Professionals in hospitals and schools need to know how to speak Spanish. Immigrants need to know how to speak English.
- D) the number of retirees is decreasing, making way for a younger generation.

Answer: C

Explanation: Legal and illegal immigrants have had a dramatic effect on many cities. The schools and hospitals and other services have been affected. Some local governments are making every effort to adapt, including changing signs, brochures, websites, and forms to include other languages.

Difficulty: 3 Hard

Topic: The Private Enterprise System

Learning Objective: 01-06 Analyze the social changes affecting businesses.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

314) As he explores his options for starting a new business, Eli has looked into the tax implications and government regulations that he would encounter. He wants to maintain an office in a different location from his home. He has discovered that some nearby communities offer tax credits and lower taxes than his town. His decision will be influenced by the _____ environment.

- A) demographic
- B) technological
- C) socio-religious
- D) economic and legal

Answer: D

Explanation: The economic environment includes taxes and government regulations. As the textbook notes: Entrepreneurial decisions about where to locate a business can be strongly influenced by differences in taxes and government regulations.

Difficulty: 3 Hard

Topic: The Private Enterprise System

Learning Objective: 01-03 Analyze the effects of the economic environment and taxes on businesses.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation

315) If Eli starts his own business, his firm's activities and policies will impact many different groups of stakeholders, including employees, customers, creditors, suppliers, and people living in the community where his business is located. Which of the following statements represents how Eli should deal with these various groups? Eli should

- A) take the needs of all of these groups into account, and try to satisfy each group as much as possible.
- B) concentrate on meeting the needs of his customers, since they are crucial to the success of his business, but ignore the needs of other groups in order to keep costs low.
- C) satisfy whichever group complains the loudest, using the "squeaky wheel gets the grease" philosophy.
- D) concentrate on maximizing his own profits and let everyone else look out for themselves.

Answer: A

Explanation: All of the groups mentioned in this question are stakeholders in a business. They are all affected by the products, policies, and practices of the firm and their concerns need to be addressed.

Difficulty: 3 Hard

Topic: The Factors that Affect the Success or Failure of an Organization

Learning Objective: 01-01 Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.

Bloom's: Analyze

AACSB: Analytical Thinking

Accessibility: Keyboard Navigation