

Exam

Name _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) The main function of economics is to study _____.

A) the stock exchange

1) _____

B) the exchange of ideas about motivation and behavior in the workplace

C) the exchange of cultural information in a diverse society

D) the exchange of diplomatic relations between nations

E) the exchange of goods and services between individuals, businesses, and nations

2) Celeste is interested in studying the effects that natural disasters have on the value of goods and services in the affected areas. Her area of study should be _____. 2) _____

A) sociology

B) sustainability

C) microeconomics

D) macroeconomics

E) marketing

3) Joseph took a class in macroeconomics, which means that he was studying the behavior of _____. 3) _____

A) Fortune 500 companies

B) the overall economy

C) individual businesses

D) corporate executives

E) people with limited resources

4) A free market economy is one in which _____.

A) privately owned, profit-seeking enterprises are converted to government-owned production and services

4) _____

B) the government controls healthcare while privately owned businesses operate in other market sectors

C) individuals and private firms make decisions based on consumer needs and wants

D) the government or other centralized group determines what to produce

E) individuals determine what to produce with some level of government involvement

5) A mixed economy is one in which _____.

A) the government or other centralized group determines and controls all resources and means of production

5) _____

B) both resources and means of production are extremely limited and generally confined to agricultural produce

C) there is no government intervention whatsoever in industry

D) both individuals and government control resources and determine production methods

E) either individuals or private firms, but not both, control resources and determine production methods

6) A planned economy is one in which _____.

A) individuals and businesses determine the production methods, with a focus on efficiency and productivity

6) _____

B) the government or other centralized group determines wages, sets prices, and distributes resources and products to the common group

C) individual income ultimately controls purchasing decisions

D) government distributes some goods and services through selected social programs, and individual income determines purchasing decisions for other goods and services

E) the production and pricing of goods and services is determined through the operation of a market

7) John is an employee at a car manufacturer. Today he has come into work to find that production has stopped because the government has determined that the steel used in the cars will be better used in the manufacture of a new railway line. John doesn't mind, because although his wages are low, he gets paid whether there is any work for him to do or not.

John MOST likely lives in a _____. 7) _____

A) blended economy

B) mixed economy

C) market economy

D) planned economy

E) capitalist economy

8) Socialism is similar to communism in that _____.

A) the government does not charge taxes

8) _____

B) the government fails under economic stress

C) the government distributes goods and services

D) the government provides all of the social services

E) the government does not intervene in industry

9) Which of the following statements is NOT true of a market economy?

A) The pricing of goods is determined by what sellers wish to charge and buyers wish to pay.

9) _____

B) The system encourages private ownership of resources.

C) The government may supply some goods or services.

D) The individual makes his or her own economic decisions.

E) The economy is defined by a freedom of choice for both buyers and sellers.

10) _____ is one of the countries closest to having a planned economy, and _____ is one of the countries closest to having a market economy. 10) _____

A) India; Norway

B) Canada; China

C) Russia; Italy

D) Russia; Norway

E) Cuba; Singapore

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

11) Microeconomics is the study of the behavior of the overall economies of small countries. 11) _____

- 12) Macroeconomics is the study of how certain occurrences affect the economy as a whole. 12) _____
- 13) The supply of services is not part of the study of economics because it does not involve the exchange of goods.
13) _____
- 14) Economics is the study of how goods and services are exchanged between individuals, businesses, and governments.
14) _____
- 15) Communism and socialism are examples of market economies. 15) _____
- 16) In a planned economy, an individual's personal income dictates his or her spending choices. 16) _____
- 17) Although the United States comes close to being a capitalist economy, it is considered a mixed economy because there is some government intervention. 17) _____
- 18) Business managers do not need to be aware of the decisions of collective businesses outside their own industry.
18) _____

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 19) Define economics and explain the difference between microeconomics and macroeconomics.
- 20) Explain the differences between how a market economy and a mixed economy decide what to produce, how to produce it, and for whom to produce it.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 21) Which transaction best describes bartering?
A) an exchange of goods without an exchange of currency, in which the price of something is determined by the needs and resources of each person involved in the exchange
21) _____
B) an exchange of currency without an exchange of goods, in which the price of something is determined by what sellers demand
C) an exchange of goods for currency, in which the price of something is determined by establishing its value against an underlying commodity
D) a transfer of goods without an exchange of currency, in which the price of something is determined by the seller, and the buyer agrees to pay at a later time
E) an exchange of goods for currency, in which the price of something is determined by what buyers are willing to pay
- 22) Mae's Country Kitchen sells out of her cinnamon rolls every morning before 8:30 a.m., and her later customers ask her to make more. The next day, Mae makes an additional two dozen cinnamon rolls and raises the price of an individual cinnamon roll by 50¢. She sells all but one of them. Mae has found the _____ price of her cinnamon rolls. 22)

A) surplus
B) market
C) determinant
D) supply

E) demand

23) The amount of a product or service that is available for purchase at any given time is called _____. 23) _____

A) surplus

B) demand

C) shortage

D) supply

E) commodity

24) Prices become higher when a unique and highly desirable item is auctioned _____.

A) because the supply and demand are equal

24) _____

B) because the supply and demand are kept unknown

C) because the demand is higher than the supply

D) because the demand is lower than the supply

E) because the supply is higher than the demand

25) According to the law of supply, the amount of a good or service supplied will increase as the price increases, and decrease as the price decreases. This direct relationship exists because _____. 25) _____

A) supply is affected by the number of suppliers

B) supply is derived from a producer's desire to maximize profit

C) supply is not affected by the quantity of similar or substitute products

D) supply is not dependent on the resources required to produce the product

E) supply is affected by changes in technology

26) A supply curve illustrates _____.

A) the effects of changes in resource prices on supply

26) _____

B) the effects of price on quantity demanded

C) that as supply increases, the price stays the same

D) that as supply decreases, demand decreases

E) the effects of price on quantity supplied

27) _____ refers to how much of a product or service people want to buy at any given time.

A) Commodity

27) _____

B) Demand

C) Equilibrium

D) Surplus

E) Supply

28) A demand curve illustrates _____.

A) the effects of supply on quantity demanded

28) _____

B) the effects on population changes on demand

- C) that as price increases, demand stays the same
- D) the effects of price on quantity demanded
- E) that demand decreases as price decreases

29) When the supply curve and the demand curve for a single product or service are shown on the same graph, the point at which the curves intersect identifies the _____. 29) _____

- A) amount of the surplus to be anticipated
- B) market price of the good
- C) number of substitute goods available
- D) quality of the good or service being purchased
- E) total profit earned by the producers

30) Taken together, the iPod and iTunes are _____.

- A) monopolistic goods
- 30) _____

- B) competitive goods
- C) substitute goods
- D) intangible goods
- E) complementary goods

31) Pilar's daughter wants a Betty the Builder doll for Christmas. When Pilar gets to the toy store they are sold out, so she goes to another store. There she is told that they have a limited quantity, which will go on special sale at 6 a.m. the next morning—and that she'd better get in line early. This is an example of which of the following determinants of demand?

31) _____

- A) substitute goods
- B) population changes
- C) changes in income levels
- D) complementary goods
- E) consumer preference

32) One example of complementary goods is _____.

- A) cable television and Internet service
- 32) _____

- B) a cell phone and wireless phone service
- C) magazines and newspapers
- D) cheese and crackers
- E) dog food and a dog bowl

33) What are substitute goods?

- A) goods that can be used to repair others
- 33) _____

- B) goods that complement others
- C) goods that can be modified to replace others
- D) goods that can be used in place of others
- E) goods that experience seasonal changes in demand

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 34) Currency is a unit of exchange for the transfer of goods and services, and provides a consistent standard. 34) _____
- 35) The price of a product or service is based entirely on its actual value. 35) _____
- 36) Supply refers to how much of a product or service is available for purchase at a given time. 36) _____
- 37) The law of demand states that as the price for an item or service increases, so will the supply and that if the price is lower, the supply will also be less. 37) _____
- 38) Mae bakes 100 cinnamon rolls each day to sell at her café, and each day she sells out before breakfast is over. Many of her customers ask for, but don't get one. Her customers ask that she bake more cinnamon rolls each day. This is an example of a shortage. 38) _____
- 39) Holding all other factors constant, prices are set slightly above the point where supply equals demand. 39) _____
- 40) The price at which supply of an item or service equals the demand for that item is known as the market price. 40) _____
- 41) Changes in the prices of resources do not help determine supply because those resources can be replaced by substitute goods. 41) _____
- 42) Population changes are a key determinant of demand for goods and services. 42) _____

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 43) Mae is considering raising the price of her cinnamon rolls in order to maximize her profits. Describe the factors that will help her determine the best price for her cinnamon rolls.
- 44) How might a decrease in income levels lead to population changes?
- 45) How do consumer preferences for popular goods affect the demand curve? Give an example using a specific product.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 46) What best determines the level of competition?
A) the existence of complementary goods
46) _____
- B) the number of complementary products or service
C) the degree of change in income levels
D) the degree of population change
E) the number of substitutes for a certain good or service
- 47) _____ occurs when there is only one provider of a service or product and no substitutes for the service or product

exist. 47) _____

- A) Perfect competition
- B) Monopolistic competition
- C) A duopoly
- D) An oligopoly
- E) A monopoly

48) The _____ and the Department of Justice must review mergers between large competitors to determine whether the combined firm would be a monopolistic corporation. 48) _____

- A) Internal Revenue Service
- B) Federal Trade Commission
- C) Federal Reserve Bank
- D) Federal Appeals Court
- E) Securities and Exchange Commission

49) The government allows some _____ companies to operate as regulated monopolies.

- A) telecommunications

49) _____

- B) mining
- C) airline
- D) utility
- E) timber

50) What is the MOST likely scenario in a monopoly, where only one seller supplies a product or service? 50) _____

- A) Demand may vary.
- B) Demand may be low.
- C) Prices will be low.
- D) Supply may be limited.
- E) Supply may be abundant.

51) _____ occurs when there are a few sellers in a given market and each seller has a fairly large share of that market.

51) _____

- A) Monopolistic competition
- B) An oligopoly
- C) A monopoly
- D) Perfect competition
- E) A duopoly

52) Which of the following industries is LEAST likely to form an oligopoly?

- A) automobile

52) _____

- B) tobacco
- C) pharmaceutical
- D) airline
- E) consulting

53) _____ occurs when there are many buyers and sellers and little differentiation between products, but perceived differences between products among consumers. 53) _____

- A) A monopoly
- B) Monopolistic competition
- C) An oligopoly
- D) A duopoly
- E) Perfect competition

54) In what way does monopolistic competition favor consumers?

A) A large number of sellers providing virtually identical products means that no single seller can set the price.
54) _____

B) A large number of sellers and products increases supply of similar, but not identical, products and services, so to increase demand sellers are likely to reduce prices.

C) A limited number of sellers differentiate their products or services by offering better quality items and/or greater incentives to purchase them.

D) A single seller or provider ensures consistency of product quality and regulated pricing.

E) A small number of sellers compete by differentiating their products from one another.

55) _____ occurs when there are many buyers and sellers of products that are virtually identical and any seller can easily enter and exit the market. 55) _____

- A) Perfect competition
- B) A duopoly
- C) A monopoly
- D) Monopolistic competition
- E) An oligopoly

56) What is the purpose of the U.S. government's regulation of monopolies?

A) to ensure that no one industry has control of the entire national economy

56) _____

B) to ensure that there are as many opportunities for perfect competition as possible

C) to ensure that companies have equal access to natural resources like water and natural gas

D) to ensure that no single seller can drastically increase the price of a given product or service

E) to ensure that local businesses are always the preferred provider of products consumers want

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

57) Mae's Restaurant is the only establishment in town that sells cinnamon rolls. Mae therefore has a monopoly on the cinnamon roll business in town. 57) _____

58) Competition in an oligopoly is centered more on making one product stand out from another than it is on price.

58) _____

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

59) Describe how each of the four degrees of competition affect supply and demand.

60) Explain the relationship between monopoly as a form of economic competition and the failures of communism as an economic system.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

61) What is an economic indicator?

A) an aspect of the economy that can be measured in order to determine a country's overall economic health

61) _____

B) a business expert who understands the economy and can advise managers how best to handle their companies

C) an action taken by the government to influence swings in the business cycle

D) a formula used by accountants to determine their company's net profit

E) a way of identifying whether a given market is an oligopoly or monopolistic competition

62) ArmiLiza, a popular United States-based brand of handbags, has built a second factory in Mexico. The majority of the new factory's employees are Mexican citizens or Honduran immigrants. On which country's gross domestic product will the second factory's goods be counted? 62) _____

A) They will be split between the United States and Mexico.

B) Honduras

C) the United States

D) They will be split among all three countries.

E) Mexico

63) The _____ is the most widely used indicator of economic growth in the world today.

A) gross national product

63) _____

B) gross domestic product

C) consumer price index

D) unemployment rate

E) producer price index

64) A downward-moving GDP indicates that _____.

A) more goods and services are being produced and sold

64) _____

B) the number of products created in a country by non-domestic companies is increasing

C) fewer goods and services are being produced and sold

D) businesses are doing well

E) the number of unemployed people is decreasing

65) A rise in the general level of prices over time is called _____.

A) inflation

65) _____

B) deflection

C) deflation

D) equilibrium

E) disinflation

66) _____ is a decrease in the rate of inflation.

A) Depression

66) _____

B) Deflation

C) Deflection

D) Disinflation

E) Inflation

67) A continuous decrease in the level of prices over time is called _____.

A) deflection

67) _____

B) deflation

C) inflation

D) depression

E) disinflation

68) What does the monthly consumer price index (CPI) measure?

A) the changes in prices of goods and services as determined by the sellers

68) _____

B) the changes in prices of the resources used to create consumer goods

C) the number of new products purchased by consumers

D) the changes in prices of goods and services purchased by households

E) the amount of products and services manufactured domestically

69) The value of the CPI's "market basket" is determined by _____.

A) the price of all goods and services purchased in a particular period

69) _____

B) the difference between the prices of the raw materials used to create goods and the prices the consumer actually pays for these finished goods

C) the net profit earned by businesses selling a specified set of goods and services

D) the cost of production for a specified set of goods and services in a given market

E) the combined prices of a specified set of goods and services

70) Why does the U.S. Bureau of Labor Statistics evaluate the CPI's "market basket"?

A) to ensure that it reflects current consumer demand

70) _____

B) to ensure that it reflects current wholesale resource costs

C) to ensure that it reflects current trends in the production of goods and services

D) to ensure that it reflects current wholesale spending habits

E) to ensure that it reflects current consumer spending habits

71) The average total of goods and services required to maintain a particular standard of living is called _____.

71) _____

A) total household expenditure

B) the cost of fundamental human needs

- C) the cost/price index
- D) quality of life
- E) the cost of living

72) The producer price index tracks the average change in prices from the _____ perspective.

A) buyer's

72) _____

- B) economist's
- C) government's
- D) marketer's
- E) seller's

73) Goods tracked by the PPI include _____ and _____.

A) recreation; apparel

73) _____

- B) energy prices; prices for services
- C) transportation; communication
- D) education; medical care
- E) raw materials; finished goods sold to retailers

74) _____ unemployment measures unemployment caused by lack of demand for those who want to work; it generally follows the economy. 74) _____

- A) Seasonal
- B) Temporary
- C) Frictional
- D) Structural
- E) Cyclical

75) _____ unemployment measures those out of work during the off-season, such as those employed in snow- or beach-related industries, agriculture, and/or holiday activities. 75) _____

- A) Seasonal
- B) Structural
- C) Frictional
- D) Temporary
- E) Cyclical

76) _____ unemployment refers to a temporary state of unemployment in which workers move between jobs, careers, and locations. 76) _____

- A) Cyclical
- B) Frictional
- C) Circumstantial
- D) Structural
- E) Seasonal

77) _____ unemployment measures permanent unemployment associated with massive industry-wide changes that lead to complete elimination of the positions formerly held. 77) _____

- A) Frictional
- B) Structural
- C) Seasonal
- D) Cyclical
- E) Circumstantial

78) Mae's oven bakes 50 cinnamon rolls an hour. She bakes 200 cinnamon rolls a day. The cost of power for running her oven each day is \$30. Mae has decided that she would like to bake the same amount of cinnamon rolls in less time in order to save on energy costs. What should she do? 78) _____

- A) Manage competition by baking muffins as well as cinnamon rolls.
- B) Increase productivity by baking more cinnamon rolls per hour.
- C) Increase her customer base by advertising on popular local food blogs.
- D) Increase efficiency by beginning her baking operations earlier in the day.
- E) Increase profitability by charging more money per cinnamon roll.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

79) Products manufactured in foreign countries by U.S. companies are included in the U.S.'s gross domestic product (GDP). 79) _____

80) The consumer price index (CPI) tracks changes in prices at the wholesale level. 80) _____

81) Change in prices is an important economic indicator because it is a measurement of consumers' purchasing power. 81) _____

82) Cyclical unemployment measures those out of work during the off-season, such as those employed in agriculture and snow-, beach-, or holiday-related industries. 82) _____

83) Higher productivity results in higher costs and higher prices, resulting in lower income and lower profitability. 83) _____

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

84) Divya owns a small boutique in a busy neighborhood. She has been thinking of expanding her business hours and hiring a sales associate to work evenings and weekends. She sees on the news that the GDP is down and decides to hold off on expanding her business for the time being. Why?

85) Describe how the consumer price index (CPI) uses the "market basket" to measure price changes.

86) What does the consumer price index (CPI) tell us about the purchasing power of the dollar? How does it function as an economic indicator?

87) What are some consequences of a high unemployment rate? What are some consequences of a low unemployment rate?

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

88) The gross domestic product (GDP) measures _____.

A) the overall gross profit a country earns in a given year

88) _____

B) a country's overall income resulting from production in a year

C) a country's overall increase in profitability from one year to the next

D) the overall market value of final goods and services produced in a country in a given year

E) a country's overall expenditures in a given year

89) The term "business cycle" refers to _____.

A) the periodic increases and decreases of the economy

89) _____

B) the increases and decreases in the rate of inflation

C) the periodic growth of the Federal Reserve system

D) the periodic purchases of goods and services by the government

E) the periodic increases and decreases in the GDP due to seasonal factors

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

90) A recession is an increase in the unemployment rate over two or more consecutive quarters of a year. 90) _____

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

91) Name the four parts of the business cycle and describe how they relate to each other.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

92) The government determines the appropriate level of taxes and spending through its _____.

A) currency policy

92) _____

B) monetary policy

C) fiscal policy

D) domestic policy

E) foreign policy

93) Decreasing taxes can stimulate the economy by _____.

A) decreasing the amount of money the government is able to spend

93) _____

B) allowing consumers more money to spend

C) directly influencing the consumer price index

D) helping to contain an economy that is growing too quickly

E) controlling the money supply

94) What is the money supply?

A) the combined amount of money available within the economy

94) _____

B) the total amount of money held in the Federal Reserve Bank

C) the amount of money the government is allowed to spend to stimulate economic growth

D) all the coins and bills held by people, businesses, and banks

E) the combined amount of money available in privately owned accounts

95) The government manages the supply of money through its _____.

A) domestic policy

95) _____

B) monetary policy

C) stimulus policy

D) fiscal policy

E) foreign policy

96) The Federal Reserve System (the Fed) manages the country's money supply through its monetary policy to control inflation by doing all of the following EXCEPT _____. 96) _____

A) changing certain interest rates

B) buying and selling government securities

C) manipulating reserve requirements

D) increasing taxes

E) trading in foreign exchange markets

97) All of the following statements about open market operations are true EXCEPT _____.

A) they are probably the most influential tool the Federal Reserve has to alter money supply

97) _____

B) they are used by the Federal Reserve to change the Federal Funds Rate

C) they are used by the Federal Reserve to transact with securities dealers

D) they are used by the Federal Reserve to buy and sell mutual funds

E) they are used by the Federal Reserve to change the discount rate

98) In which part of the business cycle would the Federal Reserve be most likely to increase the discount rate to discourage banks from borrowing? 98) _____

A) peak

B) trough

C) depression

D) expansion

E) recession

99) The reserve requirement is defined as _____.

A) the minimum amount of money banks hold in reserve to cover deposits

99) _____

B) the maximum amount of money that is insured by the Federal Deposit Insurance Corporation

C) the maximum amount of money banks can borrow from the Federal Reserve

D) the minimum amount of money that can be deposited by banks in the Federal Reserve

E) the maximum amount of money banks can borrow from one another

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

100) The government can influence the economy through its fiscal policy by making changes in the money supply.

100) _____

101) When the Federal Reserve Bank buys or sells U.S. securities, it changes the level of reserves in the banking system which has an effect on interest rates. 101) _____

102) The discount rate is the interest rate banks are charged when they borrow money from the Fed. 102) _____

103) The Fed relies primarily on changes in the reserve requirement (the minimum amount of money banks must hold in reserve to cover deposits) to ease or tighten the money supply. 103) _____

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

104) Define open market operations and describe how the Federal Reserve Bank uses them to control the money supply.

105) What are the possible consequences of a continual expansion in the money supply?

106) How does lowering the discount rate enable the Fed to stimulate the economy? How does raising the discount rate enable the Fed to control an economy that is too robust?

- 1) E
- 2) C
- 3) B
- 4) C
- 5) D
- 6) B
- 7) D
- 8) C
- 9) C
- 10) E
- 11) FALSE
- 12) TRUE
- 13) FALSE
- 14) TRUE
- 15) FALSE
- 16) FALSE
- 17) TRUE
- 18) FALSE

19) Economics is the study of how governments, businesses, and individuals make decisions to best satisfy their wants and needs with limited resources. Microeconomics focuses on how individual businesses and consumers make decisions to allocate their resources. Macroeconomics focuses on the behavior of the overall economy.

20) In a market economy, individuals and private firms make decisions about what to produce based on consumer needs and wants with no government involvement. Individuals and private firms determine production methods based on calculations of efficiency and profitability. Individual income ultimately controls purchasing decisions. In a mixed economy, individuals and private firms make decisions about what to produce, but the government is involved in providing services and regulating some aspects of conducting business. Individuals and private firms determine production methods, but may be influenced or regulated by the government. Government distributes some goods and services through social programs, but individual income informs most purchasing decisions.

- 21) A
- 22) B
- 23) D
- 24) C
- 25) B
- 26) E
- 27) B
- 28) D
- 29) B
- 30) E
- 31) E
- 32) B
- 33) D
- 34) TRUE
- 35) FALSE
- 36) TRUE
- 37) FALSE
- 38) TRUE
- 39) FALSE
- 40) TRUE
- 41) FALSE
- 42) TRUE

43) Mae should take into consideration the basic conflict of price-setting, which is that the higher the price of an item, the more likely she is to supply the product, but that the lower the price, the more likely the product is to be purchased. Mae must consider whether the demand for her cinnamon rolls is high enough that customers will still want to buy them at a higher price. Holding all other factors constant, prices are set at a point where supply equals demand.

44) A decrease in income levels might lead to population changes if it becomes necessary for people to sell their homes and/or move to another community in search of employment. Income losses also affect discretionary spending. For instance, people who have had a decrease in income are less likely to go on vacation and take part in seasonal rentals or activities. This might then negatively impact the economy in seasonal towns, leading to additional decreases of income in regions that rely on tourism.

45) When consumers show a high rate of preference for a particular product or service, the quantity of demand for that item increases and the demand curve shifts to the right (toward more demand). Examples will vary, but students should identify a product with high initial demand, or a demand that grew noticeably stronger over time such as Nintendo Wii, Apple iPad, and Tickle Me Elmo dolls.

46) E

47) E

48) B

49) D

50) D

51) B

52) E

53) B

54) B

55) A

56) D

57) TRUE

58) TRUE

59) (1) In a monopoly, there is only one supplier of a good or service. Supply is not as high as it would be in a different form of competition, but demand for that good or service will be very high. (2) In an oligopoly, there is more supply than in a monopoly and more competition. Prices tend to be very similar between products because the products themselves are similar. Competition is centered on product differentiation in order to capture a larger share of the market rather than on price. (3) In a monopolistic competition, there are many buyers and sellers and both supply and demand are high. Monopolistic competition is driven by the differences consumers perceive between similar products. This perceived distinction between products is often driven by differences in price. (4) In perfect competition, there are many buyers and sellers of virtually identical products. Supply and demand are both high, but because consumers do not differentiate between products and there are so many products available, no single seller can set the price.

60) A monopoly occurs when there is only one provider of a good or service and no substitutes for the good or service exist. Because there is only one supplier, there is less abundant supply in general and the supplier is more susceptible to changes in resource prices. In the communist system, the government is the sole supplier of all goods and services across the economic spectrum and is responsible as well for controlling prices and distributing those goods and services. The entire economy (rather than just a single product or service) is therefore in some sense a monopoly, and because competition is limited to nonexistent, motivation to produce goods can be limited and severe shortages of goods and services may result.

61) A

62) E

63) B

64) C

65) A

66) D

67) B

68) D

69) E

70) E

71) E

72) E

73) E

74) E

75) A

76) B

77) B

78) B

79) FALSE

80) FALSE

81) TRUE

82) FALSE

83) FALSE

84) A downward-moving GDP indicates problems with the economy. The GDP moves down because fewer goods are being produced and fewer services being sold. This means that the businesses that produce these goods and services will have less profit and may need to lay off workers. The change in income for these workers means that they will spend less money overall, which means she may not have enough customers to make the expansion worthwhile.

85) The CPI measures price changes by creating a "market basket" of a specified set of goods and services that represent the average buying pattern of urban households. The value of this market basket, as determined by the combined prices of these goods and services, is compared to its value in a prior period (generally a month) and the change is noted.

86) During periods of increasing prices as reflected by the CPI, the purchasing power of the dollar decreases, meaning that less can be bought with a dollar today than yesterday. This functions as an economic indicator by showing that inflation is on the rise and that businesses should prepare for increases in the cost of labor and production.

87) High unemployment results in an increase in government spending on unemployment benefits and social services. It can also bring about increases in stress, mental illness, and crime throughout a population. Also, it is costly for businesses to lay off workers and then, as the economy improves eventually, hire and train new employees. Low unemployment means that workers have increased buying power and spend more, which can lead to a higher inflation rate. The challenge is to try to keep both inflation and unemployment low.

88) D

89) A

90) FALSE

91) The *peak* of a business cycle occurs when the economy is at its strongest. The peak occurs when expansion ends and recession begins. A *recession* is a decline in GDP for two or more consecutive quarters and is characterized by a decline in corporate profits and a rise in unemployment. The *trough* is the point in the cycle at which the economy is at its weakest. The trough occurs when recession ends and recovery begins. *Recovery*, or expansion, is a growth in GDP and is characterized by rising profits and reduced unemployment.

92) C

93) B

94) A

95) B

96) D

97) E

98) D

99) A

100) FALSE

101) TRUE

102) TRUE

103) FALSE

104) Open market operations are the buying and selling by the Federal Reserve Bank of U.S. Treasury and federal agency bonds on the open market. Securities dealers compete in these transactions to get the best deal. When the Fed buys or sells U.S. securities, it is changing the level of monetary reserves in the banking system. When it buys securities, it adds

reserves to the banking system, thereby increasing the money supply and lowering interest rates. When it sells securities, it decreases the amount of reserves in the system, thereby reducing the money supply and causing interest rates to rise.

105) If the money supply continues to expand, eventually there may not be enough goods and services to satisfy demand. When demand is high, prices will rise. An overall rise in price results in inflation, which leads to a decrease in the purchasing power of the dollar. To compensate, businesses increase wages to compensate for the price increases and eventually increase prices to compensate for the expanded costs of production.

106) The Fed lowers the discount rate on loans to banks to stimulate the economy by making it easier for banks to obtain additional reserves. The banks can then lend this money out to businesses, thereby stimulating the economy by adding funds into the economy. When the economy is too robust, the Fed can increase the discount rate, making it harder for banks to get loans. Businesses are then discouraged from taking out loans at the higher interest rate, thereby slowing the addition of funds to the economy.