**Unit Three Review**

**Multiple Choice**

*Identify the letter of the choice that best completes the statement or answers the question.*

\_\_\_\_ 1. What kind of market runs most efficiently when one large firm supplies all of the output?

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| --- | --- | --- | --- |
| a. | a natural monopoly | c. | perfect competition |
| b. | a network | d. | imperfect competition |

\_\_\_\_ 2. What is one kind of monopoly that the U.S. government generally permits?

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| --- | --- | --- | --- |
| a. | the telephone company | c. | low-price gasoline |
| b. | professional sports leagues | d. | certain kinds of medications |

\_\_\_\_ 3. What is monopolistic competition?

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| a. | one company selling the identical product under different names |
| b. | one company selling several different products under different names |
| c. | a very few companies selling identical products |
| d. | many companies selling similar but not identical products |

\_\_\_\_ 4. What happens to a monopolistically competitive firm that begins to charge an excessive price for its product?

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| --- | --- |
| a. | The firm will go out of business. |
| b. | Consumers will substitute a rival’s product. |
| c. | Consumers will boycott the product. |
| d. | The government will regulate the price. |

\_\_\_\_ 5. Cartels are difficult to operate for which of the following reasons?

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| a. | They work only if members keep to their agreed output. |
| b. | They are illegal worldwide. |
| c. | Firms in a cartel are likely to lose money. |
| d. | The products are perfectly competitive. |

\_\_\_\_ 6. Why does the government sometimes give monopoly power to a company by issuing a patent?

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| --- | --- |
| a. | The government does not want competition for the product. |
| b. | The company makes a product better than anyone else’s. |
| c. | The company pays the government for the patent. |
| d. | The company can then profit from their research without competition. |

\_\_\_\_ 7. Which of the following is NOT a condition for perfect competition?

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| --- | --- |
| a. | Many buyers and sellers participate in the market. |
| b. | Sellers offer a wide variety of products. |
| c. | Buyers and sellers are well informed about products. |
| d. | Sellers are able to enter and exit the market freely. |

\_\_\_\_ 8. Which of the following industries have been deregulated in recent years?

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| --- | --- | --- | --- |
| a. | low-cost housing | c. | airlines |
| b. | pharmaceuticals | d. | steel |

\_\_\_\_ 9. Which of the following is a product that is considered a commodity?

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| --- | --- | --- | --- |
| a. | automobiles | c. | writing paper |
| b. | feed corn for cattle | d. | apples |

\_\_\_\_ 10. What is the definition of an oligopoly?

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| --- | --- |
| a. | one firm producing 95 percent of the output |
| b. | two to four firms producing 70 percent to 80 percent of the output |
| c. | eight to ten firms producing 60 percent to 70 percent of the output |
| d. | eight to ten firms producing 90 percent of the output |

\_\_\_\_ 11. What is one of the effects that the Internet has had on business?

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| --- | --- |
| a. | It has led to new monopolies in many industries. |
| b. | It has decreased the kinds of goods that are available to individual buyers. |
| c. | It has increased the prices of goods that are not bought on the Internet. |
| d. | It has reduced start-up costs for many businesses. |

\_\_\_\_ 12. Sunshine Island has three large supermarkets that supply most of the groceries for the island’s population. A gas station also sells a very small selection of groceries. How would you describe the market for groceries on Seaside Island?

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| --- | --- | --- | --- |
| a. | perfect competition | c. | oligopoly |
| b. | monopolistic competition | d. | monopoly |

\_\_\_\_ 13. What was the chief effect of the Sherman Antitrust Act?

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| a. | The federal government repealed regulations that controlled the airline and trucking industries. |
| b. | Microsoft required personal computer manufacturers to include its web browser with the Microsoft Windows operating system. |
| c. | John D. Rockefeller formed the Standard Oil Trust as a protected natural monopoly. |
| d. | The federal government won the power to prevent monopolies and mergers that interfered with trade between states. |

\_\_\_\_ 14. Which of these is an example of economies of scale?

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| --- | --- |
| a. | A shoe store finds it can increase profits by hiring high school students who are willing to work for minimum wage. |
| b. | A ranch increases its profits by expanding from 400 to 800 cattle without buying or renting additional land. |
| c. | A restaurant charges customers $1 a glass for water that was once provided for free. |
| d. | An Internet access company charges customers different rates for using the Internet at different times of day. |

\_\_\_\_ 15. Which of the following markets is an example of monopolistic competition?

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| --- | --- | --- | --- |
| a. | water | c. | bookbags |
| b. | oranges | d. | bus tickets |

\_\_\_\_ 16. Which of these will NOT lead to a monopoly?

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| --- | --- | --- | --- |
| a. | a franchise | c. | antitrust laws |
| b. | a patent | d. | a license |

\_\_\_\_ 17. Which of the following is NOT an example of barriers to entry?

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| a. | Cable companies must lay miles of undergound cable before they can serve a single customer in a new market. |
| b. | In some counties, laws require retail stores to be closed on Sundays. |
| c. | An entrepreneur wishing to own a clothing store must rent a building, hire workers, and buy clothing for sale. |
| d. | A person who wishes to practice medicine is required to attend medical school, complete an internship, and pass a state exam. |

\_\_\_\_ 18. Why do companies practice price discrimination?

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| a. | Price discrimination enables companies to charge all consumers the same price for a good or service. |
| b. | Price discrimination allows companies to defend an illegal monopoly against free market competition. |
| c. | Price discrimination provides individual producers with an advantage in perfectly competitive markets. |
| d. | Price discrimination recognizes that groups of consumers are willing and able to pay different amounts and maximizes profits by charging each group a different price. |

\_\_\_\_ 19. Which of the following statements is true about profits in a monopolistically competitive market?

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| a. | Most firms will earn substantial profits from year to year. |
| b. | Many firms will earn profit in the short term, but they must constantly innovate and compete to earn profits in the long term. |
| c. | Profits are rare in monopolistically competitive markets. |
| d. | Monopolistically competitive firms are as profitable as monopoly firms. |

\_\_\_\_ 20. If a firm enjoys economies of scale,

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| --- | --- |
| a. | its average total cost will increase as production increases. |
| b. | its marginal revenue will increase as production increases. |
| c. | its average total cost will decrease as production increases. |
| d. | its total costs will decrease as production increases. |

\_\_\_\_ 21. Which of the following is an advantage of a sole proprietorship?

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| --- | --- |
| a. | No one is responsible if it fails. |
| b. | It is the least-regulated form of business organization. |
| c. | It is an easy way to make a lot of money. |
| d. | It is easy to get financing to start one. |

\_\_\_\_ 22. What percentage of businesses are sole proprietorships?

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| --- | --- | --- | --- |
| a. | 25 percent | c. | 60 percent |
| b. | 40 percent | d. | 75 percent |

\_\_\_\_ 23. A joining of two or more businesses that are involved in different stages of producing the same good or service is called which of the following?

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| --- | --- | --- | --- |
| a. | vertical merger | c. | cooperative |
| b. | horizontal merger | d. | conglomeration |

\_\_\_\_ 24. Why is it easier for a partnership to borrow money and to hold good employees than it is for a sole proprietorship to do so?

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| a. | The more limited access to a partner’s personal funds make the business more careful. |
| b. | The large number of partners makes it more likely that the business will be a success. |
| c. | The larger number of partners means that people are easier to get along with. |
| d. | A partnership has more personal stability and access to more money. |

\_\_\_\_ 25. What is the major difference between a corporation and other kinds of businesses?

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| a. | A corporation is much larger than other kinds of businesses. |
| b. | A corporation is not responsible for its debts if it fails. |
| c. | A corporation has a separate entity apart from that of the owners and workers. |
| d. | A corporation has officers who are responsible for the business. |

\_\_\_\_ 26. What are royalties?

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| --- | --- |
| a. | fees paid to law firms and accountants |
| b. | a percentage of a franchise’s earnings paid to the parent company |
| c. | fees paid to celebrities for using their names |
| d. | a percentage of profits paid to the government |

\_\_\_\_ 27. Which of the following represents the percentage of all U.S. businesses that are corporations, and the percentage of all goods that those corporations sell?

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| --- | --- |
| a. | 10 percent of businesses; 50 percent of goods sold |
| b. | 20 percent of businesses; 90 percent of goods sold |
| c. | 50 percent of businesses; 75 percent of goods sold |
| d. | 20 percent of businesses; 50 percent of goods sold |

\_\_\_\_ 28. What is a fringe benefit?

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| a. | a cash payment for casual work |
| b. | a business other than sales or marketing |
| c. | a payment other than wages or salaries |
| d. | an accounting term meaning profits |

\_\_\_\_ 29. Which of the following is a disadvantage of a sole proprietorship?

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| --- | --- | --- | --- |
| a. | lack of permanence | c. | legal constraints |
| b. | high taxes | d. | difficult to start up |

\_\_\_\_ 30. What are the money and other valuables that belong to a corporation or partnership called?

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| --- | --- | --- | --- |
| a. | liabilities | c. | ownership |
| b. | assets | d. | liens |

\_\_\_\_ 31. What are organizations that are in the business of benefiting society and operate like a business called?

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| --- | --- | --- | --- |
| a. | trade associations | c. | producer cooperatives |
| b. | nonprofit organizations | d. | limited partnerships |

\_\_\_\_ 32. Which of the following is a business organization owned by a group of people for their mutual benefit?

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| --- | --- | --- | --- |
| a. | a cooperative | c. | a limited liability partnership |
| b. | a labor union | d. | a professional organization |

\_\_\_\_ 33. In a publicly held corporation

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| a. | stockholders rarely trade their stocks. |
| b. | a large number of stockholders can buy and sell stock. |
| c. | stocks are not usually traded at stock exchanges. |
| d. | family members are excluded from holding stock. |

\_\_\_\_ 34. Good Wireless and Better Wireless merge to form Best Wireless. The federal government watches this merger carefully for evidence of a

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| --- | --- | --- | --- |
| a. | horizontal merger. | c. | monopoly. |
| b. | conglomerate. | d. | vertical merger. |

\_\_\_\_ 35. Dr. Ruiz shares equal responsibility and liability with her colleagues in their medical practice. Her practice is a

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| --- | --- | --- | --- |
| a. | general partnership. | c. | limited liability partnership. |
| b. | limited partnership. | d. | sole proprietorship. |

\_\_\_\_ 36. Your running shoes were designed in the United States but assembled in Asia by a company called RunnerPro. RunnerPro is a

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| --- | --- | --- | --- |
| a. | general partnership. | c. | multinational corporation. |
| b. | trade association. | d. | producer cooperative. |

\_\_\_\_ 37. Your family’s house needs a new roof. In order to find out which roofers are reliable and charge fair prices, your family should call your local

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| --- | --- | --- | --- |
| a. | business franchise. | c. | Better Business Bureau. |
| b. | service cooperative. | d. | labor union. |

\_\_\_\_ 38. Your uncle owns a convenience store that has branches nationwide. His store is an example of a

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| --- | --- | --- | --- |
| a. | business franchise. | c. | multinational. |
| b. | professional organization. | d. | consumer cooperative. |

\_\_\_\_ 39. Ellen started a catering business, but soon decided that catering was too stressful for her. She could close her business relatively easily and return to school because the business was a

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| --- | --- | --- | --- |
| a. | producer cooperative. | c. | sole proprietorship. |
| b. | general partnership. | d. | closely held corporation. |

\_\_\_\_ 40. The government usually allows conglomerates because they

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| --- | --- |
| a. | do not result in decreased competition. |
| b. | lead to larger, more efficient firms. |
| c. | join two or more firms that compete in the same market. |
| d. | combine firms that are involved in different stages of producing the same good or service. |

\_\_\_\_ 41. You own a successful bicycle repair business. You are considering incorporating in order to

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| a. | avoid double taxation. |
| b. | raise money more easily. |
| c. | avoid government regulations. |
| d. | acquire greater control in managing the business. |

\_\_\_\_ 42. You are part-owner of NewBrands corporation because you

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| --- | --- |
| a. | own the company’s stock. |
| b. | have created a corporate charter for the company. |
| c. | have purchased company bonds. |
| d. | attend the company’s annual meetings. |

\_\_\_\_ 43. Every day on your way to basketball practice you wave to Mr. Martin, who owns the neighborhood flower stand. Mr. Martin’s store is probably a

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| --- | --- | --- | --- |
| a. | limited partnership. | c. | small corporation. |
| b. | sole proprietorship. | d. | parent company. |

\_\_\_\_ 44. Approximately what percentage of U.S. workers belong to labor unions?

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| a. | 9 percent | c. | 25 percent |
| b. | 13 percent | d. | 42 percent |

\_\_\_\_ 45. What is collective bargaining?

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| a. | union and company representatives meeting to negotiate a new labor contract |
| b. | an organization of workers representing several different occupations |
| c. | an agreement to allow everyone to be part of the labor negotiating process |
| d. | a situation in which the rights of labor have been set aside |

\_\_\_\_ 46. For which kinds of discrimination does the EEOC handle complaints?

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| --- | --- |
| a. | race only |
| b. | race and sex only |
| c. | religion and nationality only |
| d. | race, sex, color, religion, or nationality |

\_\_\_\_ 47. Which of the following is an example of using physical capital instead of human capital to get a job done?

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| a. | furniture made by hand | c. | an automatic teller machine |
| b. | a server in a fast-food restaurant | d. | a licensed practical nurse |

\_\_\_\_ 48. According to economic theory, what happens to job opportunities in low-paying jobs when the minimum wage goes up?

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| a. | Job opportunities become more interesting. |
| b. | The jobs available become easier to get. |
| c. | The quantity of labor demanded goes down. |
| d. | The quantity of labor demanded goes up. |

\_\_\_\_ 49. In inflation-adjusted dollars, how have average wages in the United States changed in the last 20 years?

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| a. | Wages have gone up significantly. | c. | Wages have varied every few years. |
| b. | Wages have gone down significantly. | d. | Wages have stayed the same. |

\_\_\_\_ 50. When did labor unions begin to gain some legal rights in the United States?

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| a. | 1900s | c. | 1930s |
| b. | 1920s | d. | 1950s |

\_\_\_\_ 51. Which of the following could be considered company benefits?

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| a. | overtime payments |
| b. | weekly wages |
| c. | the employee’s payments to Social Security |
| d. | the employer’s payments to Social Security |

\_\_\_\_ 52. When your grandfather and his friends entered the work force in 1950, they were likely to have jobs in

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| a. | factories producing electronics. |
| b. | agriculture. |
| c. | the service sector. |
| d. | companies such as Standard Oil or Carnegie Steel. |

\_\_\_\_ 53. Tracy, a recent college graduate who earned straight “A’s” as a history major, is applying for a job as a legal assistant. Although she does not have a background in law, she hopes to land the job because of the

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| a. | learning effect. |
| b. | trend toward having several different jobs during one’s career. |
| c. | trend toward contingent employment. |
| d. | screening effect. |

\_\_\_\_ 54. Current labor market trends include

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| a. | an increase in the number of people not counted in employment statistics. |
| b. | an increase in demand for low-skilled American labor. |
| c. | an increase in service jobs accompanied by a decrease in manufacturing jobs. |
| d. | all of the above. |

\_\_\_\_ 55. The equilibrium wage for doctors is high because the

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| a. | demand for doctors equals the supply. |
| b. | supply of doctors is relatively low and the demand is relatively high. |
| c. | demand for doctors tends to be lower relative to supply. |
| d. | supply of doctors is relatively high and the demand is relatively low. |

\_\_\_\_ 56. The label in your jeans says that they were made in a Latin American country. This is probably because the jeans manufacturing company wanted to locate its plant

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| a. | closer to raw materials. |
| b. | where labor was plentiful and therefore cheaper. |
| c. | in a warmer climate. |
| d. | in a region with less technology. |

\_\_\_\_ 57. Emily has been waiting for a promotion to a management position for almost five years. When she notices that men fill most of the higher-level jobs in her company, she suspects that her company has

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| --- | --- | --- | --- |
| a. | low productivity. | c. | minimum wage laws. |
| b. | too much skilled labor. | d. | a glass ceiling. |

\_\_\_\_ 58. All of the following help explain why carpenters usually earn more than dishwashers EXCEPT

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| a. | a greater demand for carpenters than for dishwashers. |
| b. | a carpenter is a skilled worker, while a dishwasher is a semi-skilled worker. |
| c. | a greater supply of carpenters than dishwashers. |
| d. | a greater danger of on-the-job injury for carpenters than for dishwashers. |

\_\_\_\_ 59. Labor unions arose largely in response to the

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| a. | dangerous working conditions and long hours of factory jobs in the 1800s. |
| b. | practice of featherbedding in the railroad industry. |
| c. | goal of many firms to hire and retain the most highly skilled workers. |
| d. | 1938 Fair Labor Standards Act, which banned child labor. |

\_\_\_\_ 60. The strength of labor unions has declined in recent years because

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| --- | --- |
| a. | the number of white collar jobs is increasing. |
| b. | the number of blue collar jobs is decreasing. |
| c. | some manufacturers have relocated to countries where labor is cheaper or to the American South. |
| d. | all of the above |

\_\_\_\_ 61. Your cousin tells you that his trucking company has resorted to arbitration with the trucker’s union. This means that

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| a. | strikebreakers will be called in to perform key tasks. |
| b. | a neutral third party is reviewing the dispute and will impose a legally binding decision. |
| c. | the trucker’s union is on strike. |
| d. | the company will call in a mediator if arbitration fails. |