

CH 6 Test Review

Multiple Choice

Identify the choice that best completes the statement or answers the question.

- _____ 1. The production, distribution, and consumption of products is _____.
A. gross domestic product
B. economic activity
C. consumer price index
D. specialization
- _____ 2. Money spent to provide police and fire protection fall into which of the following categories?
A. business spending
B. consumer spending
C. government spending
D. net exports
- _____ 3. A country's _____ shows the amount and direction of the change in GDP for a specific time period.
A. economic growth rate
B. consumer price index
C. inflation rate
D. interest rate
- _____ 4. A general decline in prices throughout an economy is _____.
A. depression
B. deflation
C. recession
D. inflation
- _____ 5. What type of economic indicator is a country's GDP?
A. leading
B. universal
C. lagging
D. coincident
- _____ 6. What type of economic indicator is the stock market?
A. leading
B. universal
C. lagging
D. coincident
- _____ 7. Policy that regulates the supply of money and interest rates by a central bank in an economy is considered _____.
A. fiscal policy
B. employment policy
C. antitrust policy
D. monetary policy

- _____ 8. Which of the following items is an example of consumer spending?
- A. warehouse construction
 - B. purchasing medical care
 - C. spending for national defense
 - D. spending for social programs
- _____ 9. What is the economic growth rate for a country whose 2015 GDP was \$20.6 trillion and whose 2016 GDP was \$22.3 trillion?
- A. 7.6 percent
 - B. 7.9 percent
 - C. 8.3 percent
 - D. 8.7 percent
- _____ 10. Which of the following events may lower interest rates?
- A. increase in the amount of money available for lending
 - B. increase in the strength of the economy
 - C. increase in the labor force
 - D. increase in demand to borrow money
- _____ 11. A certificate of debt issued by an organization or government is a _____.
- A. share
 - B. bond
 - C. stock
 - D. trade
- _____ 12. During which stage of the business cycle are output, income, and employment at their lowest?
- A. expansion
 - B. peak
 - C. trough
 - D. recession
- _____ 13. During which stage of the business cycle does consumer demand for goods and services start to slow down?
- A. expansion
 - B. peak
 - C. trough
 - D. recession
- _____ 14. The practice of focusing on the production of specific goods to increase production with the same amount of labor is known as _____.
- A. expansion
 - B. productivity
 - C. prosperity
 - D. specialization
- _____ 15. Which of the following statements about interest rates is true?
- A. The government does not influence interest rates.
 - B. The interest rate represents the cost of a loan.
 - C. Interest rates are not affected by the forces of supply and demand.
 - D. The interest rate is expressed as a fraction of the total cost of a loan.

Matching

Match the following terms and identifying phrases.

- A. consumer price index
- B. depression
- C. externality
- D. gross domestic product
- E. inflation rate
- F. labor force
- G. monopoly
- H. oligopoly
- I. recession
- J. standard of living

- ___ 16. Market structure with a small number of businesses selling the same or similar products.
- ___ 17. Rate of change in prices over a period of time, expressed as a percent.
- ___ 18. Measure of the average change in the prices paid by consumers for typical consumer goods and services over time.
- ___ 19. Financial well-being of the average person in a country.
- ___ 20. Something that affects people but is not directly connected to an economic activity.
- ___ 21. Market structure in which one business controls the entire supply of a product.
- ___ 22. Period of severe economic contraction that lasts a long time.
- ___ 23. All the people in a country who are capable of working and want to work.
- ___ 24. Market value of all final products produced in a country during a specific time period.
- ___ 25. Period of significant decline in the total output, income, employment, and trade in an economy.

Completion

Complete each statement.

- 26. An economy that has a high rate of employment, stable prices, and high productivity is considered a(n) _____ economy.
- 27. Interest rates, the unemployment rate, inflation, and the GDP are all economic _____ used to measure the strength of the economy.
- 28. An economic indicator that changes after a change in economic activity is a(n) _____ indicator.
- 29. Offering excellent customer service instead of price to attract customers is an example of _____ competition.
- 30. Another term for business spending is _____ spending.

Name: _____

ID: A

31. A worker's _____ is the amount of work the person produces in a specific amount of time.
32. The _____ of an economy consists of alternating periods of expansion and contraction.
33. The stage that follows a peak in the business cycle is _____.
34. A company that sells a service at a lower price than competitors in order to attract customers is engaging in _____ competition.
35. The tax spending decisions made by the president and Congress reflect the government's _____ policy.
36. When two or more businesses in an industry agree to sell the same product at the same price, they are practicing _____.
37. The government has established _____ laws to prevent monopolies and unfair pricing and business practices.
38. The total money circulating at any one time in a country is the country's money _____.
39. The expansion that follows a trough in the business cycle is called a(n) _____.
40. _____ is a period of growth and financial well-being.

Short Answer

41. What is the difference between monopolistic competition and perfect competition?
42. Explain how interest rates are affected by supply and demand.
43. Into what two categories is the civilian labor force divided?
44. Why would there be an unemployment rate of about 4 percent even if an economy were at full employment?
45. What are the four stages of the business cycle?
46. What happens to the inflation rate during economic expansion?
47. Name three specific roles the government plays in the operation of the economy in a free enterprise system.
48. Explain why the unemployment rate is considered a lagging indicator of economic activity.
49. Briefly describe the characteristics of an economy that is experiencing economic expansion.
50. What does a share of stock in a corporation represent?

**CH 6 Test Review
Answer Section**

MULTIPLE CHOICE

- 1. ANS: B PTS: 1
- 2. ANS: C PTS: 1
- 3. ANS: A PTS: 1
- 4. ANS: B PTS: 1
- 5. ANS: D PTS: 1
- 6. ANS: A PTS: 1
- 7. ANS: D PTS: 1
- 8. ANS: B PTS: 1
- 9. ANS: C PTS: 1
- 10. ANS: A PTS: 1
- 11. ANS: B PTS: 1
- 12. ANS: C PTS: 1
- 13. ANS: B PTS: 1
- 14. ANS: D PTS: 1
- 15. ANS: B PTS: 1

MATCHING

- 16. ANS: H PTS: 1
- 17. ANS: E PTS: 1
- 18. ANS: A PTS: 1
- 19. ANS: J PTS: 1
- 20. ANS: C PTS: 1
- 21. ANS: G PTS: 1
- 22. ANS: B PTS: 1
- 23. ANS: F PTS: 1
- 24. ANS: D PTS: 1
- 25. ANS: I PTS: 1

COMPLETION

- 26. ANS: healthy
PTS: 1
- 27. ANS: indicators
PTS: 1
- 28. ANS: lagging
PTS: 1

29. ANS:
nonprice
non-price

PTS: 1

30. ANS: investment

PTS: 1

31. ANS: productivity

PTS: 1

32. ANS: business cycle

PTS: 1

33. ANS: recession

PTS: 1

34. ANS: price

PTS: 1

35. ANS: fiscal

PTS: 1

36. ANS:
price-fixing
price fixing

PTS: 1

37. ANS: antitrust

PTS: 1

38. ANS: supply

PTS: 1

39. ANS: economic recovery

PTS: 1

40. ANS:
Prosperity
prosperity

PTS: 1

SHORT ANSWER

41. ANS:

In perfect competition, many businesses sell the same product at the same prices. In monopolistic competition, many businesses sell similar, but not the same, products, and at different prices.

PTS: 1

42. ANS:

An increase in demand to borrow money tends to increase interest rates. Interest rates usually decrease when the demand for loans falls, because the supply of money available for loans is higher than the demand for loans.

PTS: 1

43. ANS:

employed and unemployed

PTS: 1

44. ANS:

Full employment includes only those people who are willing and able to work have a job. There are always people who are not working for many different reasons. They may be entering or reentering the workforce or may be between jobs.

PTS: 1

45. ANS:

expansion, peak, recession, and trough

PTS: 1

46. ANS:

The inflation rate tends to rise because increased consumer demand forces prices higher and because wages tend to increase.

PTS: 1

47. ANS:

Any three: manages the economy, provides public goods and services, provides a legal framework, promotes competition, and corrects for externalities.

PTS: 1

48. ANS:

In economic expansion, the unemployment rate declines, but not until the expansion has been underway for six to nine months. During recession, the unemployment rate rises, but not until after the contraction has been underway for a while.

PTS: 1

49. ANS:

In economic expansion, the economy is growing and the GDP is rising. There is an increase in consumer demand for goods and services. Businesses react by increasing production and hiring more workers. Wages also begin to increase. More workers and higher wages produce an even greater demand for goods and services. Inflation tends to increase because increased consumer demand forces prices to rise.

PTS: 1

50. ANS:

Each share represents a partial ownership of the corporation.

PTS: 1