Name_____

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

 Finance is any transaction where money is exchanged for goods and services. Answer: True Salse Explanation: Page Ref: Topic: 	1)
 2) Finance is any transaction where money is exchanged for money or a money-like instrument. Answer: True False Explanation: Page Ref: Topic: 	2)
3) A dividend is an after tax payment that must be made by all stock companies to the stockholders each year.	3)
Answer: True Salse Explanation: Page Ref: Topic:	
4) The United States operates with a free enterprise system.	4)
Answer: • True False Explanation: Page Ref: Topic:	
5) A market economy is one where all goods and services are exchanged freely.	5)
Answer: True Sealse Explanation: Page Ref: Topic:	
6) Wheat, soybeans, oil, and gold are commodities.	6)
Answer: • True False Explanation: Page Ref: Topic:	

 7) The mental and physical talents of human beings are entrepreneurial resources. Answer: True Salse Explanation: Page Ref: Topic: 	7)
8) The stocks and bonds issued by a corporation are the economic capital resources of the corporation. Answer: True • False Explanation: Page Ref: Topic:	8)
9) The stocks and bonds issued by a corporation are the financial capital resources of the corporation.Answer: TrueFalse	9)
Explanation: Page Ref: Topic:	
 10) In market transactions, when one party wins, the other usually feels as though he or she lost. Answer: True Sealse Explanation: Page Ref: Topic: 	10)
11) The law of demand states that as the price of an item falls, the quantity demanded will decrease, ceteris paribus.	11)
Answer: True Salse Explanation: Page Ref: Topic:	
12) As the price of an item increases, the quantity of the item provided to the marketplace will increase, ceteris paribus.	12)
Answer: • True False Explanation: Page Ref: Topic:	
13) First National Bank is the central bank of the United States.	13)
Answer: True Sealse Explanation: Page Ref: Topic:	

 14) The Federal Reserve is the central bank of the United States. Answer: ● True False Explanation: Page Ref: Topic: 	14)
 15) In order to increase the money supply, the Fed will sell government securities. Answer: True • False Explanation: Page Ref: Topic: 	15)
 16) A person making less than the cutoff rate for Social Security pays 6.2% of his income in Social Security taxes. Answer: True False Explanation: Page Ref: Topic: 	16)
 17) A person making \$90,000 or less pays 6.2% of his salary in Social Security taxes. Answer: • True False Explanation: Page Ref: Topic: 	17)
 18) An athlete making \$7,000,000 pays 6.2% on the full \$7,000,000 in Social Security taxes. Answer: True False Explanation: Page Ref: Topic: 	18)
 19) Social Security tax is regressive to the person making less than the cutoff rate. Answer: True Security False Explanation: Page Ref: Topic: 	19)
20) The Medicare tax of 1.45% is a proportionate tax for all. Answer: • True False Explanation: Page Ref: Topic:	20)

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

	-	n be used to finance a			21)
		om financial instituti	ons		
		d from current sales			
C) borrowing					
D) using one'		ings			
E) all of the a	ibove				
Answer: E					
Explanation:	A)				
	B)				
	C)				
	D)				
	E)				
Page Ref: Topic:	,				
	-		of financing for the small bu	siness?	22)
		general public			
B) using one		-			
		om financial institution	ons		
D) borrowing					
E) using cash	n generate	d from current sales			
Answer: A					
Explanation:	A)				
Ĩ	B)				
	C)				
	D)				
	E)				
Page Ref:	L)				
Topic:					
-	fort where	-	re freely exchanged is know		23)
A) business.		B) religion.	C) government.	D) market.	
Answer: D					
Explanation:	A)				
Explanation	B)				
Explanation					
Explanation	C)				
Expression	C) D)				
Page Ref: Topic:	,				

24) Which of the following is NOT a primary participant in the financial marketplace?

B) individual households

D) governments

A) military units

C) businesses

Answer: A

Explanation: A)

- B)
 - C) D)

Page Ref:

Topic:

25) There are several markets in the United States. The market where property is exchanged is the

25)

A) retail market.B) real estate market.

C) commodity market.

D) financial market.

E) none of the above.

Answer: B

Explanation: A) B) C) D) E)

Page Ref: Topic:

- 26) There are several markets in the United States. The market where corn, wheat, soybeans, and oil are exchanged is the
 - A) retail market.
 - B) commodity market.
 - C) financial market.
 - D) real estate market.

E) none of the above.

Answer: B

Explanation: A)

- B)
- C)
 - D)
 - E)

27) There are several markets in the United States. The market where stocks, bonds, and money are exchanged is the

27)

- A) commodity market.
- B) retail market.
- C) real estate market.
- D) financial market.
- E) none of the above.

Answer: D

Explanation:	A)
	B)
	C)
	D)
	E)
Page Ref:	

Topic:

28) There are several markets in the United States. The market where television sets are exchanged is the

A) financial market

B) commodity market.

C) retail market.

D) real estate market.

E) none of the above.

Answer: C

Explanation: A)

- B) C)
- D)
- E)

Page Ref:

29) There are several markets in the United States. The market where final goods and services are exchanged is the

- A) real estate market.
- B) commodity market.
- C) financial market.
- D) retail market.
- $E) \ \text{none of the above.} \\$

Answer: D

Explanation:	A)
	B)
	C)
	D)

E)

Page Ref:

Topic:

30) The primary savers of funds in the United States are

- A) households.
- B) businesses.
- C) governments.
- D) all of the above.
- E) none of the above.

Answer: A

- Explanation: A) B) C)
 - D) E)
- Page Ref:

Topic:

- 31) The users of funds in the United States are
 - A) governments.
 - B) businesses.
 - C) households.
 - D) all of the above.
 - E) none of the above.

Answer: D

Explanation: A) B) C) D) E) Page Ref:

Topic:

31)

30)

7

	with which to pay for them.	sires for goods and services. They also have	32)
A) unlimited;		B) unlimited; unlimited	
C) limited; lir	nited	D) limited; unlimited	
Answer: A			
Explanation:	A)		
1	B)		
	C)		
	D)		
Page Ref: Topic:			
3) A tree in a forest	is an example of a(n)		33)
A) entreprene	eurial resource.	B) natural resource.	
C) capital res	ource.	D) human resource.	
Answer: B			
Explanation:	A)		
	B)		
	C)		
	D)		
Page Ref: Topic:			
	n a college campus is an exa	mple of a(n)	34)
A) human res		B) capital resource.	
C) entreprene	eurial resource.	D) natural resource.	
Answer: B			
Explanation:	A)		
	B)		
	C)		
	D)		
Page Ref: Topic:			
5) When Bill Gates a(n)	developed MS-DOS and for	unded Microsoft to market this product, he was using	35)
A) capital res	ource.	B) entrepreneurial resource.	
C) natural res		D) human resource.	
Answer: B			
Explanation:	A)		
1	B)		
	C)		
	D)		
Page Ref:	,		
Topic:			

36) When a college	36)		
A) entrepreneurial resource.		B) natural resource.	
C) human re	source.	D) capital resource.	
Answer: C			
Explanation:	A)		
	B)		
	C)		
	D)		
Page Ref: Topic:			
	lowing is NOT an example of econ	omic capital?	37)
A) a desk in a			
	truck used by Federal Express		
	c plant used by a local utility to gen	erate electricity	
D) a bond iss	-		
E) all of the a	above		
Answer: D			
Explanation:	A)		
	B)		
	C)		
	D)		
	E)		
Page Ref: Topic:			
Topic.			
	lowing is NOT an example of econ	omic capital?	38)
	stock issued by IBM		
B) a desk in a	a classroom		
C) a delivery	truck used by Federal Express		
D) an electric	c plant used by a local utility to gen	erate electricity	
E) all of the a	above		
Answer: A			
Explanation:	A)		
	B)		
	C)		
	D)		
	E)		
Page Ref:			
Topic:			

39) Which of the following is an example of financial capital?

A) a delivery truck used by Federal Express

B) a share of stock issued by IBM

C) an electric plant used by a local utility to generate electricity

D) a desk in a classroom

E) all of the above

Answer: B

Explanation:	A)
	B)
	C)
	D)
	E)
Page Ref:	
Topic:	

40) A local computer manufacturer hires an additional worker and pays \$10.00 per hour for an 8-hour day. 40) The worker is capable of assembling 3 computers an hour. The firm sells each computer for \$1,500. What is the marginal physical product of this worker?

A) \$10.00 per hour

C) \$80.00 per day

Answer: D

Explanation: A) B)

C)

D)

Page Ref:

Topic:

41) The highest value surrendered when a decision is made is

- A) opportunity cost.
- B) absolute cost.

C) capital cost.

D) marginal cost.

E) economic cost.

Answer: A

Explanation:	A)
	B)
	C)
	D)
	E)

Page Ref: Topic: B) \$1,500 per unit produced

D) 3 computers per hour

41)

42) The cost associated with hiring one more unit of labor is

A) opportunity cost.

B) absolute cost.

C) marginal cost.

D) economic cost.

E) capital cost.

Answer: C

Explanation:	A)
	B)
	C)
	D)
	E)
Page Ref:	
Topic:	

- 43) John's friend just gave him a pair of concert tickets to see his favorite rock group perform this weeke
 43) Each ticket sells for \$25. John's boss asked him to work overtime the same weekend and at the same time as the concert. John currently makes \$10.00 an hour and his overtime pay for the four hours his boss asked him to work is double the hourly rate. If John decides to go to the concert, his opportunity cost is
 - A) \$50.00 because that is what his friend paid for the tickets.

B) \$80.00 in lost pay.

C) \$40.00 in lost pay.

- $D)\$ \$50.00 for the two tickets.
- E) nothing because the concert tickets were free for John.

Answer: B

Explanation:	A)
--------------	----

B)C)D)E)

Page Ref:

44) Jane just graduated from college with a Bachelor of Science Degree in Computer Information Systen
 44) received the following job offers. Jones and Associates at a starting salary of \$30,000. Smith Brothers at a starting salary of \$33,000. Joan Cannery Consulting at a starting salary of \$35,000. Consultants - R - We at a starting salary of \$32,000. Andrews Computer Vendors at a starting salary of \$36,000. If she takes the job with Andrews Computer Vendors, her opportunity cost is

A) \$30,000.

B) \$32,000.

C) \$33,000.

D) \$35,000.

E) nothing because she took the job with the highest salary.

Answer: D

Explanation: A)

B)C)D)E)

Page Ref: Topic:

45) Jane just graduated from college with a Bachelor of Science Degree in Computer Information system 45) received the following job offers. Jones and Associates at a starting salary of \$30,000. Smith Brothers at a starting salary of \$33,000. Joan Cannery Consulting at a starting salary of \$35,000. Consultants-R-We at a starting salary of \$32,000. Andrews Computer Vendors at a starting salary of \$36,000. If she takes the job with Jones and Associates, her opportunity cost is

A) \$30,000.	B) \$32,000.	C) \$33,000.	D) \$35,000.	E) \$36,000.
Answer: E				
Explanation:	A)			
	B)			
	C)			
	D)			
	E)			
Page Ref:				
Topic:				

46)

46) Which of the following is included in Gross Income?

A) interest earned on savings accounts

B) rental income on property

- C) wages and tips
- D) profit made by an entrepreneur

E) all of the above

Answer: E

Explanation: A) B) C) D) E) Page Ref: Topic:

47) Which of the following is NOT a form of taxes that governments use?

A) proposed taxes

B) proportional taxes

- C) progressive taxes
- D) regressive taxes E) all of the above

Answer: A

Explanation: A)

- B)
- C)
- D)
- E)

Page Ref: Topic:

48) John Gates made \$25,000 last year and paid \$2,500 in taxes on this income. Jane Smith made \$30,000 last year and paid \$3,000 in taxes on this income. What type of tax is the government using?

A) proposed taxes

B) proportional taxes

C) progressive taxes

D) regressive taxes

E) impossible to calculate with the information provided

Answer: B

Explanation: A)

- B)
 - C)
 - D)

E)

Page Ref: Topic:

47)

49) John Gates made \$25,000 last year and paid \$1,500 in taxes on this income. Jane Smith made \$30,000 last year and paid \$3,000 in taxes on this income. What type of tax is the government using?

- A) regressive taxes
- B) progressive taxes
- C) proposed taxes
- D) proportional taxes
- E) impossible to calculate with the information provided

Answer: B

- Explanation: A)
 - B)
 - C)
 - D) E)

Page Ref:

Topic:

50) John Gates made \$25,000 last year and paid \$2,500 in taxes on this income. Jane Smith made \$30,000 last year and paid \$2,700 in taxes on this income. What type of tax is the government using?

A) regressive taxes

B) proportional taxes

C) proposed taxes

- D) progressive taxes
- E) impossible to calculate with the information provided

Answer: A

Explanation: A) B)

- C)
- D)
- E)

Page Ref:

51) John Gates made \$25,000 last year and paid \$2,500 in taxes. What percentage of his income did John pay in 51) taxes?

- A) 1%
- B) %
- C) 10%
- D) 90%

E) impossible to calculate with the information provided

Answer: C

Explanation: A) B)

C) D) E)

Page Ref: Topic:

52) Jane Smith made \$30,000 last year and paid \$8,400 in taxes. What percentage of her income did Jane pay in 52) taxes?

A) 2.8%	B) 3.57%	C) 7.2%	D) 28%	E) 72%
Answer: D				
Explanation:	A)			
	B)			
	C)			
	D)			
	E)			
Page Ref:				
T :				

53)

Topic:

53) Which of the following is an example of a regressive tax?

- A) flat tax
- B) income tax

C) sales tax

D) property tax

E) All taxes are regressive taxes.

Answer: C

Explanation:	A)
	B)
	C)
	D)
	E)

54) Which of the following is an example of a progressive tax?

- A) flat tax
- B) income tax
- C) property tax
- D) sales tax

 $E)\ \mbox{Both}\ \mbox{A}\ \mbox{and}\ \mbox{B}\ \mbox{above were noted in the text as progressive taxes.}$

Answer: E

Explanation:	A)
	B)
	C)
	D)
	E)
Page Ref:	
Topic:	

55) Which of the following is an example of a progressive tax?

- A) income tax
- B) Social Security tax
- C) property tax
- D) sales tax
- E) All taxes are progressive taxes.

Answer: A

Explanation: A)

- B)
- C)
- D)
- E)

Page Ref:

Topic:

56) The price paid for money is

A) the actual payment made by the borrower to the lender.

- B) the amount borrowed from the lender.
- C) the principal and interest rate charged by the lender.
- D) the interest rate charged by the lender.

E) There is no price paid for money as it is not for sale.

Answer: D

Explanation:	A)
--------------	----

- B) C)
- D)
- E)

Page Ref: Topic:

55)

57) The supply of money saved includes all of the following EXCEPT

- A) savings accounts in banks.
- B) money market mutual funds in brokerage houses.
- C) stocks held for investors by brokerage houses.
- D) demand deposits in banks.
- E) all of the above.

Answer: C

- Explanation: A) B) C) D) E) Page Ref:
- Topic:
- 58) A union has negotiated a contract that states the following: work up to 40 hours per week will be paid at a base rate of \$10 per hour. All work in excess of 40 hours, but less than 48 hours will be paid at a rate equal
- 58)

57)

to $1\frac{1}{2}$ times the base rate. Any work in excess of 48 hours will be paid at double time. This pay scale agrees

with

- A) the law of supply.
- B) the law of demand.
- C) the law of supply and demand.
- D) ceteris paribus.
- E) can't tell with the information provided.

Answer: A

- Explanation: A)
 - B)
 - C)
 - D)
 - E)

59)

- 59) Albert Jones went to his local department store to purchase a pair of Levi's[®]. He thought that the style of Levi's[®] that he wanted would sell for about \$30 a pair. When he got to the store, he saw a sign which said, Levi's[®], all styles, \$18 a pair. Albert bought three pairs of Levi's[®]. The behavior of Albert is consistent with
 - A) the law of supply and demand.
 - B) ceteris paribus.
 - $C) \ \text{the law of supply.} \\$
 - D) the law of demand.
 - E) can't tell with the information provided.

Answer: D Explanation:

B) C)

A)

- D)
- E)

Page Ref: Topic:

Table 1-1. Supply and Demand for Personal Computers

Market Price per	· Quantity	Quantity
Computer	Demanded	Supplied
\$2,000	14,000	20,000
\$1,900	15,000	19,000
\$1,800	16,000	18,000
\$1,700	17,000	17,000
\$1,600	18,000	16,000
\$1,500	19,000	15,000

60) Refer to Table 1-1. At a market price of \$1,600, there will be

A) neither a surplus nor a shortage of computers as the market is in equilibrium at this price.

B) a surplus of 2,000 computers.

C) a surplus or a shortage of 2,000 computers.

D) a shortage of 2,000 computers.

Answer: D

Explanation:	A)
--------------	----

- B)
- C)
- D)

Page Ref:

Topic:

61) Refer to Table 1-1. At a market price of \$1,700, there will be

A) a surplus of 2,000 computers.

B) neither a surplus nor a shortage of computers as the market is in equilibrium at this price.

C) a shortage of 2,000 computers.

D) a surplus or a shortage of 2,000 computers.

Answer: B

Explanation: A) B)

- C)
- D)

Page Ref: Topic:

ropie

62) Refer to Table 1-1. At a market price of \$1,800, there will be

A) neither a surplus nor a shortage of computers as the market is in equilibrium at this price.

- B) a surplus or a shortage of 2,000 computers.
- C) a surplus of 2,000 computers.
- D) a shortage of 2,000 computers.

Answer: C

- Explanation: A)
 - B)
 - C)
 - D)

Page Ref:

Topic:

63) When the supply of money saved exceeds the demand for money, then banks will

A) increase interest rates to attract more savers.

B) lower interest rates to discourage savers.

C) put money on sale by making loans more attractive.

- $D) \mbox{ both A and B above. }$
- E) both B and C above.

Answer: E

Explanation: A)

- B)
- C)
- D)
- E)

Page Ref:

Topic:

62)

61)

63)

19

64) Changing the supply of money to expand or contract economic activity is

- A) legislative policy.
- B) monetary policy.
- C) presidential policy.
- D) congressional policy.
- E) judicial policy.

Answer: B

Explanation: A) B) C) D) E) Page Ref:

Topic:

65) The four basic factors that affect the price paid (interest rate) for money are

65)

64)

- A) the supply of money saved, the supply for borrowed funds, Federal Reserve policy, and risk.
- B) the supply of money saved, the demand for borrowed funds, Federal Reserve policy, and risk.
- C) the demand for money saved, the demand for borrowed funds, Federal Reserve policy, and risk.
- D) the demand for money saved, the supply for borrowed funds, Federal Reserve policy, and risk.

Answer: B

Explanation: A) B) C)

D)

66)

66) When the Federal Reserve increases the interest rate it charges banks to borrow reserves, it is controlling the money supply by using which of the following tools?

A) discount rate

B) open market operations

C) risk

D) reserve requirements ratio

E) unable to tell with the information provided

Answer: A

Explanation: A)

- B)
- C)
- D) E)

Page Ref: Topic:

67) When the Federal Reserve notifies banks that they must hold fifteen cents for every dollar that is deposited, it is controlling the money supply by using which of the following tools?

A) open market operations

 $B) \ \text{discount rate} \\$

C) reserve requirements ratio

D) risk

E) unable to tell with the information provided

Answer: C

Explanation: A)

B) C) D)

E)

Page Ref:

68)

68) You read an article in the paper that stated the Federal Reserve Bank sold \$500 million of government securities on Tuesday of last week. When the Fed did this they were controlling the money supply b using which of the following tools?

A) reserve requirements ratio

B) discount rate

C) open market operations

D) risk

E) unable to tell with the information provided

Answer: C

Explanation:	A)
--------------	----

- B)
- C)
- D) E)

Page Ref:

Topic:

69) If the Fed sells \$10,000 in government securities, it will have the effect of

A) changing the money supply, but the direction is not clear.

- B) increasing the money supply.
- C) decreasing the money supply.
- D) having no effect on the money supply.
- E) unable to tell with the information provided.

Answer: C

Explanation: A)

- B) C)
- D)
- E)

Page Ref: Topic:

70) If the Fed purchases \$10,000 in government securities it will have the effect of

A) decreasing the money supply.

B) increasing the money supply.

C) having no effect on the money supply.

D) changing the money supply, but the direction is not clear.

E) unable to tell with the information provided.

Answer: B

Explanation:	A)
	B)
	C)
	D)
	E)
Page Ref:	
Topic:	

71) The probability that the desired return on an investment will be different from the desired return is 71) defined as

A) discount rate.

 $B) \, \text{risk.}$

C) open market operations.

D) reserve requirements ratio.

E) unable to tell with the information provided.

Answer: B

Explanation: A) B)

- C)
- D)

E)

Page Ref:

- 72) Jerry Jones has a Visa[®] card with the Very Big Interstate Bank. He notices that the interest rate char(72) on this card is 19.5% per annum. Jerry has been employed by the same company for 15 years and has excellent credit. The company has a credit union that will issue Jerry a Visa[®] card with an interest r 14.6%. The credit union offered Jerry this reduced rate because
 - A) the systematic risk is lower for credit union members than it is for the general population.
 - B) the credit union manager likes Jerry.
 - $C) \mbox{ all Visa}^{\ensuremath{\mathbb{R}}}$ credit cards charge the same rate.
 - D) the unsystematic risk is lower for credit union members than it is for the general population.

Answer: D

Explanation: A)

- B)
- C)
- D)

Page Ref:

1) FALSE

- 2) TRUE Page Ref: Topic:
- 3) FALSE Page Ref: Topic:
- 4) TRUE Page Ref: Topic:
- 5) FALSE Page Ref: Topic:
- 6) TRUE Page Ref: Topic:
- 7) FALSE Page Ref: Topic:
- 8) FALSE Page Ref: Topic:
- 9) TRUE Page Ref: Topic:
- 10) FALSE Page Ref: Topic:
- 11) FALSE Page Ref: Topic:
- 12) TRUE Page Ref: Topic:
- 13) FALSE Page Ref: Topic:
- 14) TRUE Page Ref: Topic:
- 15) FALSE Page Ref: Topic:



16) TRUE

Page Ref: Topic:

20) TRUE Page Ref:

Topic:

21) E Page Ref: Topic:

22) A

Page Ref: Topic:

23) D Page Ref: Topic:

24) A

Page Ref: Topic:

25) B

Page Ref: Topic:

26) B

Page Ref: Topic:

27) D

Page Ref: Topic:

28) C

Page Ref: Topic:

29) D

Page Ref: Topic:

30) A

31) D Page Ref: Topic: 32) A Page Ref: Topic: 33) B Page Ref: Topic: 34) B Page Ref: Topic: 35) B Page Ref: Topic: 36) C Page Ref: Topic: 37) D Page Ref: Topic: 38) A Page Ref: Topic: 39) B Page Ref: Topic: 40) D Page Ref: Topic: 41) A Page Ref: Topic: 42) C Page Ref: Topic: 43) B

Page Ref: Topic:

44) D

Page Ref: Topic:

45) E

46) E Page Ref: Topic: 47) A Page Ref: Topic: 48) B Page Ref: Topic: 49) B Page Ref: Topic: 50) A Page Ref: Topic: 51) C Page Ref: Topic: 52) D Page Ref: Topic: 53) C Page Ref: Topic: 54) E Page Ref: Topic: 55) A Page Ref: Topic: 56) D Page Ref: Topic: 57) C Page Ref: Topic: 58) A Page Ref: Topic: 59) D

Page Ref: Topic:

60) D

61) B Page Ref: Topic: 62) C Page Ref: Topic: 63) E Page Ref: Topic: 64) B Page Ref: Topic: 65) B Page Ref: Topic: 66) A Page Ref: Topic: 67) C Page Ref: Topic: 68) C Page Ref: Topic: 69) C Page Ref: Topic: 70) B Page Ref: Topic: 71) B Page Ref: Topic: 72) D Page Ref: Topic: