Massachusetts
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MTEL®

Business (19)

PRACTICE TEST APPENDIX:
Multiple-Choice Question Analyses

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Evaluation Systems, Pearson, P.O. Box 226, Amherst, MA 01004

MULTIPLE-CHOICE QUESTION ANALYSES

1. Which of the following is the best example of a manager performing the management function of controlling?

   A. A marketing manager conducts market research to identify new marketing opportunities.

   B. A supervisor provides performance assessments to workers along with suggestions for improvement.

   C. A project manager chooses workers to serve on a team that will work on the development of a new product.

   D. A store manager meets with workers to explain the company's business goals and philosophy.

Correct Response: B. The functions of management include planning, organizing, staffing, leading, and controlling. The function of controlling involves monitoring and verifying that goals are being met. A supervisor providing performance assessment to a worker along with suggestions for improvement is an example of the function of controlling, since this involves verifying that the worker is meeting preset goals. Response (**A**) involves market research and is aligned with the planning function. Recruiting and developing an effective team (**C**) represents the staffing function. Communicating to staff a company's business goals and philosophy is part of the leading function of management (**D**).

2. Which of the following actions is likely to be a major step in implementing a program of Total Quality Management (TQM)?

   A. analyzing business operations to identify areas where improvements in efficiency are possible

   B. establishing a centralized decision-making structure in which managers are given greater authority

   C. instituting a policy of promoting managers from within and basing promotions entirely on merit

   D. implementing the lowest cost options that are available at all levels of the production process

Correct Response: A. The purpose of Total Quality Management (TQM) is to provide continuous high-quality products and services to customers. With TQM, all team members work toward the common goal of improving all aspects of the business operation. Analyzing areas where improvements in efficiency are possible is an important component of TQM. Establishing a centralized decision-making structure where management is given authorization to enforce and implement business operations is top-down management (**B**), and will not necessarily boost quality. Promoting managers from within based on merit (**C**) may be a good business strategy but it is not a defining component of TQM. Implementing the lowest cost production process may cut costs but may not improve quality (**D**).

3. In which of the following situations would it be most advantageous for a company to outsource a portion of its production to a qualified independent vendor?

   A. Production has been switched from a batch to a continuous-flow process, and efficiency in all phases of production has increased.

   B. Several new production lines have been recently added, but future demand for the product is likely to drop due to a recession.

   C. Production facilities are operating close to full capacity, and managers expect a rapid increase in demand for the product.

   D. A new product has just been added to the product line, but problems with quality control have not yet been eliminated.

Correct Response: C. Outsourcing involves sending some or all production to specialized vendors and may reduce the cost of production and overhead. If a company's production facilities are at capacity and product demand continues to rise, outsourcing some production is likely to be a good business strategy for meeting demand. Adopting a new manufacturing process that is more efficient (**A**) would meet demand and would not require outsourcing. Increasing production lines while demand decreases (**B**) would result in overproduction and not require outsourcing. Outsourcing the production of a new product before quality control issues have been resolved (**D**) would likely result in a less-than desirable product.

4. When a company implements a just-in-time system for manufacturing inputs, it is most important to ensure that:

   A. bulk rates for inputs are available from suppliers.

   B. deliveries of inputs are scheduled during slack periods of production.

   C. sufficient storage facilities for inputs are available.

   D. deliveries of inputs from suppliers will not be interrupted.

Correct Response: D. A just-in-time (JIT) manufacturing system is an inventory strategy that involves receiving goods as they are needed instead of carrying a large amount of inventory in a warehouse. Its goal is to reduce inventory costs and streamline processes. In order for JIT to be effective, deliveries of goods from suppliers must arrive on time and cannot be interrupted, or production will halt. Purchasing material in bulk (**A**) would require more storage space and increase inventory. Relying on a specific delivery schedule regardless of material needs could result in input shortages or surpluses and affect production or increase inventory (**B**). Ample space for inventory is the opposite of just-in-time inventory strategy, since it requires additional space and results in unused material sitting idle (**C**).

5. Which of the following is likely to be one advantage of reducing the number of management levels in a company's organizational structure?

   A. decreasing task differentiation and employee specialization

   B. increasing the flexibility of decision making

   C. decreasing the workload for middle-level managers

   D. increasing morale and motivation among employees

Correct Response: B. In an organization with multiple layers of management, most decisions are made at higher levels of management, and lower levels of management are involved in implementing the decisions. Reducing the number of layers opens lines of communication, shifts more responsibility to more employees, and encourages more individuals to engage in the decision-making process, thereby increasing flexibility. Reducing the number of layers of management will not necessarily affect task differentiation or specialization (**A**). The workload for middle-level managers will be more varied, but not necessarily reduced (**C**). Employee morale and motivation is affected by a variety of issues, and reducing the levels of management by itself is unlikely to boost moral or motivation (**D**).

6. Which of the following is the best example of a company changing its strategy?

   A. Site managers decide to reorganize lines of authority to allow workers increased input in decision making.

   B. Human resource managers decide to implement a diversity awareness program throughout the company.

   C. Marketing managers decide to alter the product line to appeal to a niche rather than a general market.

   D. Production managers decide to switch to continuous-flow rather than batch manufacturing.

Correct Response: C. A company's strategy is the overall direction that the company is focusing on and planning to follow. Of the choices listed, the decision to change from producing goods for a general market to a niche market is the best example of a change in strategy, since the company is changing its focus and direction. This change will require altering production, finding a new customer base, and developing new marketing channels, etc. Although reorganizing the levels of management structure (**A**) may be necessary, it is not the best example of a change in strategy. Launching a diversity awareness campaign (**B**) is likely to improve the work environment and generate new ideas, but it does not represent a significant change in strategy. Changing from batch to continuous-flow manufacturing (**D**) is a change in the manufacturing process, not the company's strategy.

7. The equity theory of employee motivation states that employees are motivated in proportion to their perceptions of the:

   A. fairness of their compensation compared with that of others who put forth similar effort in performing similar work.

   B. gap between the compensation given to upper management and the average pay of nonmanagement workers in the company.

   C. extent to which they are treated as social equals by higher-ranking members of the company's workforce.

   D. willingness of company managers to listen to their opinions and allow them to play a meaningful role in company decision making.

Correct Response: A. The equity theory is based on the idea that compensation should be based on what employees feel they contribute to the organization and should be equivalent to that of others who contribute in the same way. The equity theory is based on equal pay for equal work, and is not applicable across different levels of positions (**B**), or social equality (**C**). Managers listening to employees' thoughts and opinions in the decision-making process is an example of a participative theory (**D**), which is separate from and unrelated to equity theory.

8. In mediating conflicts within a group, it is most important that a group leader be seen by all parties to the conflict as someone who is:

   A. disinterested in obtaining a quick resolution of the conflict.

   B. willing to allow group members to set the ground rules for the debate.

   C. impartial with regard to favoring potential solutions to the conflict.

   D. able to impose a solution to the conflict if necessary.

Correct Response: C. Treating people fairly is a necessary leadership skill. A leader cannot be perceived as favoring some employees over others. When a manager must mediate a conflict between employees, it is essential that the manager be seen as fair and impartial so individuals are comfortable expressing their views and feel that any outcomes will be just. Giving the impression that a quick resolution is not desirable communicates a lack of seriousness in solving the problem (**A**). Allowing conflicting members to set the ground rules risks creating more conflict (**B**). The role of the mediator is to facilitate communication among the parties involved. If participants feel the leader will impose a solution, they will be less motivated to solve the problem themselves (**D**), and any imposed solution may turn out to be temporary.

9. Which of the following is one advantage to a business of hiring independent contractors to work on projects rather than hiring regular full-time or part-time employees?

   A. Staffing levels can be more easily adjusted to reflect the changing needs of the company.

   B. Independent contractors are more likely to provide innovative ideas and bring new solutions to the business.

   C. Independent contractors are more likely to quickly embrace the corporate culture of the business.

   D. The supply of workers who are looking for freelance jobs is likely to be greater than those looking for permanent positions.

Correct Response: A. Independent contractors typically have specific expertise and can be hired on an as-needed basis. This gives the company the ability to adjust staffing levels, since the independent contractors can be hired complete particular tasks. Independent contractors are not typically interested in the business's desire to innovate or change (**B**), they are only interested in the tasks they were hired to complete. Independent contractors are hired to complete a specific task on a temporary basis and do not become involved in the corporate culture (**C**). Most working-age adults prefer full-time positions instead of freelance work (**D**).

10. In which of the following cases does the company's action violate federal labor law?

    A. An employee is disciplined for advocating the formation of a union in the company cafeteria during the employee's lunch hour.

    B. Employees are not allowed to come to work after collective bargaining breaks down and the union threatens a strike.

    C. Nonemployee union organizers are barred from company property after distributing pro-union leaflets in the company parking lot.

    D. Permanent replacement workers are hired after collective bargaining breaks down and union members go on strike.

Correct Response: A. According to The National Labor Relations Act, employers are forbidden from interfering with employees in the exercise of rights relating to organizing for collective bargaining purposes. Therefore, a company that disciplines an employee for advocating for the formation of a union on company grounds during the employee's lunch hour would be violating federal law. Employers have the right to bar employees from coming to work during a labor dispute, but the company may only hire temporary workers to take their place (**B**). Barring nonemployee union organizers who distribute pro-union leaflets in the company parking lot (**C**) is legal and not a violation of federal labor law. The company has the legal right to hire permanent replacement workers (**D**) after collective bargaining breaks down and union members go on strike.

11. An employee would most likely be entitled to receive workers' compensation payments if he or she misses time at work due to:

    A. a respiratory infection caught from a coworker during working hours.

    B. the serious illness or death of a close relative.

    C. injuries suffered while walking home from work.

    D. stress associated with dealing with an abusive supervisor.

Correct Response: D. Workers' compensation is a form of insurance providing wage replacement and medical benefits to employees injured while working on the job. An employee is entitled to workers' compensation when he or she is injured or becomes ill as a direct result of their job. Stress associated with dealing with an abusive supervisor or working in a hostile environment is an illness covered under workers' compensation, since it is a direct result of the worker's job. A respiratory infection or an infection caught from coworkers during working hours (**A**) is not an entitlement to receive workers' compensation. Protection for employees to take unpaid leave to care for family members (The Family and Medical Leave Act, or FMLA) and bereavement benefits (**B**) are distinct from workers' compensation. Any injuries suffered while walking to or from work (**C**) occur outside of work and are not part of workers' compensation.

12. Health savings accounts (HSAs) are offered to employees by many companies. Employees can use money from these accounts to pay out-of-pocket health-care expenses that are not covered by the employee's health insurance plan. Which of the following best describes the primary advantage to employees of contributing to these accounts?

    A. Employers must match employee contributions to the account.

    B. Employee contributions to these accounts earn a high rate of government-backed interest.

    C. Employee contributions to the account are not taxed.

    D. Employees who sign up for these accounts pay lower deductibles on their health insurance.

Correct Response: C. A health savings account (HSA) is a medical savings account that allows employees to deposit money in the account without paying federal income tax on the money deposited. The employees can use these funds pay for out-of-pocket health expenses. Employers are not required to match the employee contribution (**A**), and employee contributions do not earn a high rate of government-backed interest (**B**). HSAs are only available to individuals who have a high deductible health plan (HDHP), so the deductibles are not lowered for members of these plans (**D**).

13. The yearly deductible for an employee in a company's health insurance plan is $1,200. This is best interpreted to mean that:

    A. the employee must pay $1,200 per year to the insurance company as his or her share of the cost of health insurance.

    B. the maximum yearly amount that the insurance company will pay for routine health care for the employee is $1,200.

    C. the employee must pay the first $1,200 of certain medical bills before the insurance company begins to make payments.

    D. the insurance company will pay the first $1,200 of any individual medical bill and the employee will be liable for the rest.

Correct Response: C. A health insurance plan that requires an annual deductible of $1,200 means that this sum must be paid by the employee before the insurance company begins to make payments. Some preventive care benefits do not require a deductible. When care is not preventive, diagnosis care for example, the patient is responsible for paying for the care until the value of $1,200 has been reached. When the $1,200 deductible is met, the insurance plan will pay the additional medical bills. The premium, not the deductible, is the amount the employee must pay for insurance (**A**). The maximum yearly amount that an insurance company will pay for routine health care is called a cap, and is distinct from a deductible (**B**). Response **D** is essentially another form of a cap, except it applies to all bills, not just routine bills. This is also distinct from a deductible.

14. A manager wants to send the same message to a half-dozen people. What type of communication channel should the manager use if the goal of the communication is to encourage interaction?

    A. meeting

    B. phone call

    C. e-mail

    D. presentation

Correct Response: A. A manager seeking to encourage interaction and open the lines of communication between employees should conduct a short meeting to invite employees to contribute and participate in discussions. Physical presence allows for face-to-face interaction and collaboration. Although a phone call is a personal way to convey a message (**B**), it does not offer the convenience or option for others to contribute. E-mail communication is fast and efficient and group messaging is easily accomplished, but it does not invite interaction (**C**). A presentation is typically a one-way communication from the presenter to the audience, and while questions from the audience are often encouraged, a presentation does not promote collaborative or interactive communication (**D**).

15. In which of the following situations is the listener demonstrating active listening?

    A. Mark periodically paraphrases out loud the key points made by Keysha as she explains a production plan.

    B. Raul points out an error in pronunciation made by Jack while Jack is going over a new schedule.

    C. Maria takes detailed notes while Jamal proposes a solution to a shipping problem.

    D. Todd nods his head in agreement while listening to Marcia critique a departmental budget.

Correct Response: A. The process of active listening requires that the listener paraphrase what the speaker is saying to show understanding and interest. Actively listening demonstrates to another person that they merit interest and respect. An active listener may provide feedback but should not be judgmental or correct a speaker's pronunciation (**B**). Although taking notes can be effective, it does not imply active listening (**C**) and could be a distraction. While nodding of the head in agreement is a positive communication cue, it is nonverbal and may be considered as passive listening (**D**).

16. **Use the text from a letter below to answer the question that follows.**

> Dear Mr. Wu:
>
> Thank you for your letter dated 23 November addressed to our marketing director, Ms. Fernandez.
>
> Ms. Fernandez is currently attending a conference and will be out of the office until 5 December. I shall be in contact with Ms. Fernandez and will inform her about your letter, which I know she has been looking forward to receiving.
>
> Please contact me if I can be of any help.
>
> Yours sincerely,
>
> Mr. J. Hobbs
> Assistant to Ms. A. Fernandez

What category of business letter is shown above?

A. confirmation

B. acknowledgement

C. inquiry

D. adjustment

Correct Response: B. A business correspondence sent to confirm that a communication has been received is an example of a formal acknowledgement letter. The acknowledgement letter informs the sender that his or her letter has been received and read. A confirmation letter (**A**) is a correspondence sent to approve details, summarize an agreement, or respond to an invitation. Correspondence used to ask a question or prompt a response is a letter of inquiry (**C**). A letter sent in response to a claim or complaint that can be either positive or negative is an adjustment letter (**D**).

17. The active voice is generally recommended for use in written business communications. Which of the following sentences is written in the active voice?

    A. The report needs to be written by the departmental manager.

    B. Each customer should complete the forms provided.

    C. The boxes are to be sent to shipping as soon as possible.

    D. The phone has to be answered before it rings three times.

Correct Response: B. The active voice clearly explains who does what and allows for a clearer meaning to the reader. In the active voice, the subject performs the action stated by the verb, e.g., each customer (subject) should complete (verb). Responses **A**, **C**, and **D** are all in the passive voice—the subject is receiving the action.

18. An employee for a company is scheduled to give a public talk at an upcoming meeting of city government. The talk will be about the company's proposed expansion plans. The employee has finished the presentation that will accompany the talk. Prior to giving the talk, it would be most important that the employee also:

    A. create a questionnaire to be completed by those in attendance at the talk.

    B. post the talk on the Internet so that it can be viewed by all residents of the city.

    C. anticipate any questions that audience members are likely to ask.

    D. memorize the talk and rehearse it at the location where it will be given.

Correct Response: C. Proper planning is the key for a successful presentation. In a presentation, the audience should be allowed to ask questions since a question and answer period reinforces the message, can clear up any misunderstanding, and engages the stakeholders and decision makers on the topic. As part of planning, the speaker should anticipate the questions that are likely to be asked to avoid being caught off-guard or appearing unprepared or uninformed. Filling out a questionnaire (**A**) may provide useful information, but it will not provide immediate feedback or engage the audience. Posting the talk on the Internet so that all residents can view the presentation (**B**) should be considered, but it is not as important as properly preparing for the talk. Memorizing the talk may result in a stiff, unnatural delivery and it may be difficult or impossible to rehearse at the actual location (**D**).

19. It would be most important to consider which of the following potential issues before using e-mail to send a sensitive business document over the Internet?

    A. A computer virus can be transmitted through e-mail attachments.

    B. It is easy to accidentally send an e-mail before it has been proofed for errors.

    C. The tone of an e-mail can be easily misinterpreted by the recipient.

    D. The security of an e-mail may be compromised during transmission.

Correct Response: D. E-mail is the most recognized form of business communication, but it is not entirely confidential or secure. One of the most important issues concerning e-mail is privacy. If the email is not completely encrypted, the security of the message could be compromised during transmission, allowing non-intended recipients to gain access to sensitive information. This could have harmful effects on a business. While viruses can be transmitted through e-mail attachments (**A**), a virus will not necessarily compromise a sensitive message. Typographical errors (**B**) are embarrassing, but they are not as damaging as compromised security and loss of business secrets. While it may be difficult to project the appropriate tone in an e-mail (**C**), and the wrong tone could cause offense, security needs to remain the most important concern.

20. When faxing a business document, it is most important to:

    A. make an extra hard copy of the document before it is sent.

    B. increase the font size on the document to facilitate reading.

    C. request that the recipient confirm having received the document.

    D. include a cover sheet identifying the total number of pages in the fax.

Correct Response: D. All faxes contain the date and time, as well as the name and phone number of the sender, on the first page of the fax, also known as the cover page. The cover page also includes the total number of pages in the fax. The original document sent through the fax machine stays intact so there is no need to make an extra hard copy (**A**). A fax is a facsimile, so it is an exact copy of the original. Any font changes would need to be made on the original document (**B**). Each fax machine prints a transmission verification report confirming the fax was sent successfully (**C**).

21. A clothing retailer signs a contract with a manufacturer to purchase 6,000 units of a particular style of dress shirt at a price of $12 per shirt. The contract specifies only that the shirts be a blend of 60 percent cotton and 40 percent polyester and that they be delivered by June 14. Which of the following would be a valid reason for the retailer to refuse to accept the shipment of shirts or pay the manufacturer?

    A. Cotton prices have risen sharply and the manufacturer asks the retailer to pay $12.50 per shirt.

    B. Sales of dress shirts have dropped and the retailer's store inventories are higher than expected.

    C. The retailer believes that some of the colors of shirts sent by the manufacturer will not sell well.

    D. The retailer found another manufacturer willing to provide identical shirts at a lower price.

Correct Response: A. The contract price was clearly stated at $12 per shirt in the contract agreement and the seller is obliged to meet that price regardless of market conditions. The contract agreement did not discuss demand for shirts or inventory concerns (**B**), nor did it mention specific shirt colors (**C**). Once the contract was agreed upon, the retailer could not change manufacturers (**D**), even if the retailer found a manufacturer willing to sell at a significantly lower price.

22. Federal antitrust legislation would most likely apply in which of the following cases?

    A. Senior members of a large brokerage firm are accused of insider trading of stocks.

    B. A large privately held company wishes to go public with an initial public offering (IPO) of stock.

    C. A large financial services company is accused of systematically defrauding consumers.

    D. The nation's largest and third-largest telecommunications companies wish to merge.

Correct Response: D. Antitrust legislation is designed to promote fair competition by preventing monopolies. A merger of the nation's largest and third-largest telecommunications companies would create a company that could eliminate all competition and eventually become the sole provider of communication services. This would likely have harmful effects on consumer prices and reduce or slow innovation in the communications industry. Federal antitrust legislation would mostly likely apply in this case and the Federal Trade Commission and/or Department would intervene to prevent the merger. Accusation of inside trading of stocks falls under the U.S. Securities and Exchange Commission (SEC) (**A**), which is a separate agency. And initial public offering (IPO) is a type of public offering of a company's stock and does not fall under federal antitrust legislation (**B**). A large company accused of systematically defrauding consumers is considered consumer fraud, not a violation of antitrust legislation (**C**).

23. Consumers in several cities become seriously ill after eating blackberries sold at a particular supermarket chain. Health authorities trace the illness to an independent grower who sprayed contaminated irrigation water on the berries. The grower sold the berries to a wholesaler, who packed the berries and sold them to the supermarket chain. Which of the following elements of the supply chain for the blackberries is likely to be held liable if lawsuits are filed by the individuals who were sickened by the berries?

    A. the grower who grew and picked the berries

    B. the wholesaler who packaged the berries

    C. the supermarket chain that distributed the berries

    D. the managers of the stores that sold the berries to consumers

Correct Response: A. Food poisoning lawsuits fall under the category of defective product liability claims in regard to strict product liability, negligence, and breach of warranties. Because the health authorities traced the illness to a contaminated irrigation water process, the grower was negligent and therefore responsible for the contamination of the berries. Since the investigation established the origin of the foodborne disease, the wholesaler who packaged the berries (**B**) is not responsible, nor is the supermarket chain (**C**), nor are the managers of the stores that sold the berries to the consumers (**D**).

24. Which of the following statements most accurately compares how copyright law is applied to written or printed material with the way it is applied to digital material posted on the Internet?

    A. Digital material posted on the Internet is protected under a different, less restrictive, set of copyright laws.

    B. Copyright protections for digital material posted on the Internet are the same as those for written or printed material.

    C. Digital material posted on the Internet is protected only if it was posted originally on a site with a registered domain name.

    D. Copyright protections for digital material posted on the Internet are enforced for a shorter period of time than for written or printed material.

Correct Response: B. Original written or printed literary works published or unpublished are copyright protected. Musical compositions, movies, graphics, and other original works are also covered. The originator of the material has the sole ownership and exclusive rights of to the original creation. Digital material falls under the same category as literary works and is also copyright protected. Therefore, the copyright of digital material does not fall under a less restrictive law (**A**). Response **C** is incorrect because all domain names are registered. Protection of original digital content is the same as that of the author's original written work. Copyright is automatically granted once the product is in a tangible form (**D**).

25. In response to widespread piracy of digital music and videos on the Internet, Congress passed the Digital Millennium Copyright Act. This act specifically prohibits the manufacture or distribution of software designed primarily for:

    A. circumventing encryption or other technology protecting digital works.

    B. sharing digital files on the Internet.

    C. downloading digital material from the Internet.

    D. streaming digital material online.

Correct Response: A. The Digital Millennium Copyright Act (DMCA) prohibits circumventing encryption or other technology protecting digital works. The DMCA was designed to protect copyrighted material associated with digital technology. Therefore any software or other technologies that circumvent these protections is illegal. The law does not prevent the manufacture of file sharing software (**B**), or software that allows files to be downloaded (**C**). Software that allows digital material to be streamed over the Internet (**D**) is completely legal and not prohibited by the DMCA.

26. One provision of the Massachusetts Health Care Reform Act of 2006 states that businesses with more than ten employees that do not contribute to the health-care insurance of their employees:

    A. must provide basic health-care services directly to employees.

    B. would be assigned a lower priority when bidding on state contracts.

    C. must pay a higher rate on state tax of corporate profits.

    D. would be assessed an annual fee to help fund state health programs.

Correct Response: D. The Massachusetts Health Care Reform Act of 2006 was enacted to provide health insurance to nearly all residents of Massachusetts. One provision of the bill required that employers that have more than ten full-time employees and that do not contribute to employee health-care insurance be assessed an annual fee to help fund state health care programs. While there are incentives for employers to provide health insurance to employees, employers are not required to provide basic health-care services such as blood pressure monitoring, annual flu shots, or blood tests to check for cholesterol levels (**A**). The bill did not include any provisions about bidding on state contracts (**B**). While large companies could be assessed a fee, this fee was per employee and independent of corporate profits (**C**).

27. The sole proprietor of an established software design business decides to invest an additional $10,000 of her own money to buy new equipment and hire a new employee. The effect of this additional investment will be to:

    A. increase the business's assets.

    B. decrease owner's equity.

    C. increase profits.

    D. decrease liabilities.

Correct Response: A. An asset is a resource that has economic value. Examples of assets are property, goods, machines, equipment, raw materials, human resources, and cash. When the owner invests cash into the company, the business's assets will increase. Based on the accounting equation (assets – liabilities = owner's equity), an increase in assets (while liabilities remain fixed) will also increase the owner's equity, not decrease it (**B**). The increase in assets may or may not increase profits (**C**). Unless the business decides to use the cash to pay creditors or to take other similar actions to reduce liabilities, the liabilities will not decrease (**D**).

28. On May 31, Hadrian Trading Services issued an invoice to Jonathan Smith for brokerage commissions in the amount of $2,000. A month later, Smith sent a partial payment in the amount of $1,000. When recording the payment, the accountant of Hadrian Trading Services should credit which of the following accounts for the amount of $1,000?

    A. revenue commissions

    B. cash

    C. accounts receivable

    D. provision for bad debts

Correct Response: C. The partial payment for brokerage commission is recorded as a credit in accounts receivable. Revenue commission is based on commissions earned by Hadrian Trading Services, not Jonathan Smith, and would not be credited in this account (**A**). Since the brokerage commission is a credit in accounts receivable, it will be a debit in the cash account (**B**). A provision for bad debt, also known as an uncollectible account expense, is not an outstanding brokerage commission (**D**).

29. A trial balance is useful for which of the following purposes?

    A. showing the financial situation of a business at a given date

    B. verifying that total debits equal total credits

    C. summarizing the changes in the owner's equity of a business

    D. ensuring that all account adjustments are entered correctly

Correct Response: B. The purpose of the trial balance is to verify that total debits equal total credits in an organization's general ledger accounts. The balance sheet, not the trial balance, provides a quick overview of a business at a given date (**A**). The statement of owner's equity summarizes the equity of a business. The trial balance is not used for this purpose (**C**). A trial balance cannot be used to determine if credits and debits are entered in the wrong accounts, since the balance will still be maintained (**D**).

30. **Use the spreadsheet below to answer the question that follows.**

	A	**B**
1	Sales Pizza—pick-up	25,000
2	Sales Pizza—delivery	35,000
3	Total sales	60,000
4	Variable expenses	30,000
5	Fixed expenses	10,000
6	Total expenses	40,000
7	Net income	20,000
8		

An accountant is using the electronic spreadsheet above to prepare his forecast for the next year. After reviewing the data, the accountant decides to increase the content of cell B1 and B4 by 10%. Which of the following cells will remain the same after these changes are made?

A. B2

B. B3

C. B6

D. B7

Correct Response: A. If cells B1 (customer pick-up sales) and B4 (Variable expenses) change, then cell B2 (Sales Pizza—delivery) will remain the same. This is because the value of pizza delivered is independent of the pick-up sales and the variable expenses. An increase in "Sales Pizza—pick-up" will change "Total sales" in B3 (**B**). An increase in the "Variable expenses" will cause "Total expenses" in B6 (**C**) to increase. Finally, a change in "Total sales" and "Variable expenses" will cause the "Net income" in B7 (**D**) to change.

31. An accounting clerk at a business receives cash from customers and provides them with receipts. At the end of each day, the clerk posts the amount received to accounts receivable in the business's computerized accounting program. Which of the following changes to this routine would improve the business's internal controls over its cash flow?

    A. informing customers that only checks or credit cards are acceptable to avoid manipulation of cash

    B. implementing computer safety devices such as firewalls to protect customers' personal information

    C. reminding the clerk of the business's code of ethics with regards to the manipulation of cash

    D. assigning a second employee to receive the cash from customers and provide receipts

Correct Response: D. The best practice to improve the business's internal cash flow control would be to arrange a separation of personnel duties. One person should accept the cash, confirm the amount, and create a receipt for the customer. A second person should recount the cash received and record the cash in the accounts receivable ledger. A single person should not have control over the entire cash-handling process. Dictating to customers what type of payments will be accepted could cause inconvenience and is unprofessional (**A**). It is essential that businesses have security procedures to protect customers' credit card payments, but this is independent from controlling cash flow (**B**). Reminding staff of the business code of ethics is essential, but it is not the best practice for properly securing received cash payments (**C**).

32. At the end of a given financial period, an accountant purposely fails to record the appropriate deferral entries for expenses that were paid in advance. This will result in which of the following potentially fraudulent manipulations of the financial statements?

    A. The current period's liabilities will be overstated.

    B. The next period's earnings will be overstated.

    C. The current period's net profit will be overstated.

    D. The next period's cost of goods sold will be overstated.

Correct Response: B. Failing to enter a deferral entry for expenses paid in advance will cause the earnings for the next period to be overstated. The prepaid expense will be recorded as an understated asset not an overstated liability (**A**). The net profit is the actual profit after costs and expenses are deducted, so the current period's net profit will be understated (**C**). Response **D** is incorrect because one cannot assume that the prepaid expense is for the production of cost of goods sold.

33. Which of the following best describes the primary purpose of the balance sheet?

    A. providing a list of a business's general ledger account balances at a given date

    B. summarizing revenues, expenses, and net income or loss for a business over a given period

    C. providing a detailed account of a business's financial position at a given date

    D. summarizing the changes in equity due to investments and profit or loss for a given period

Correct Response: C. The balance sheet shows a company's assets, liabilities, and owner's equity at the end of a given period of time. This document provides a detailed report of the company's financial position in terms of what the company owns and owes. A list of the business's general ledger account balances would be used to help create the balance sheet and is not related to the purpose of the balance sheet (**A**). The income statement provides a summary of revenues and expenses highlighting the company's net profit or loss, but does not provide its financial position at the given date (**B**). The statement of owners' equity, not the balance sheet, would summarize changes in equity due to investment or profit and losses (**D**).

34. Which of the following is categorized as investment activity on the Statement of Cash Flows for a business?

    A. buying equipment

    B. issuing bonds payable

    C. selling treasury stock

    D. paying dividends

Correct Response: A. Examples of investment activity on the Statement of Cash Flows for a business include cash payments to purchase property and plant equipment. Investment activity on the statement of cash flows for business would also include the purchase of bonds or shares; it would not include issuing bonds payable (**B**), selling treasury stock (**C**), or paying dividends (**D**).

35. **Use the excerpt from a manufacturer's financial statement below to answer the question that follows.**

Current Assets	120,000
Long-Term Assets	160,000
Current Liabilities	80,000
Long-Term Liabilities	130,000
Net Income	200,000

Based on the information in the excerpt above, what is the manufacturer's debt ratio?

A. 0.66

B. 0.75

C. 1.05

D. 1.5

Correct Response: B. The debt ratio determines the percentage of a business's assets that are financed through debt. A low percentage indicates that the business does not rely heavily on borrowed funds and is more financially stable. To calculate the manufacturer's debt ratio, divide the total liabilities by total assets taken from the balance sheet. It is important to calculate the total liabilities and total assets, not just the current liabilities and current assets into the equation. Inputting the total liabilities and then dividing by total assets is (80, 000 + 130,000)/(120,000 + 160,000) = (210,000/280,000) = 0.75. Response (**A**) comes from dividing current liabilities by current assets, response (**C**) comes from dividing the sum of current liabilities and long-term liabilities by net income, and response (**D**) comes from dividing current assets by current liabilities.

36. Which of the following ratios is the most useful to a manager for evaluating whether the assets of a division are used efficiently?

    A. return on investment

    B. inventory turnover

    C. return on equity

    D. accounts receivable turnover

Correct Response: A. Of the ratios listed, the most useful ratio to evaluate whether the assets are used efficiently is the return on investment (ROI) ratio, or the net profit divided by the cost of investment expressed as a percentage: ROI = (net profit/cost of investment) x 100. This ratio will give the manager an idea of how much profit an asset is generating. Inventory turnover is number of times inventory is sold or used in a time period: inventory turnover = (cost of goods sold or net sales)/average inventory, and while useful for evaluating inventory, it doesn't apply to other assets (**B**). The return on equity (ROE) measures the profit generated with each dollar of shareholders' equity: ROE = (net income)/(shareholders' equity). The return on equity measure is specifically for shareholders' equity, and is not general enough to evaluate multiple assets (**C**). The accounts receivable turnover evaluation measures how efficiently a business turns its accounts receivable into cash. The accounts receivable ratio = (net value of credit sales)/(accounts receivable) (**D**).

37. During a given year of operation, a business issues $50,000 of common stock, pays dividends of $20,000, and pays back a bank loan of $10,000. What is the net cash provided by these activities for that year?

    A. $(10,000)

    B. $ 20,000

    C. $ 30,000

    D. $ 50,000

Correct Response: B. Since the operation issues $50,000 of common stock, it initially has $50,000. Paying dividends of $20,000 will leave $50,000 – $20,000 = $30,000. Paying back a bank loan of $10,000 will leave $30,000 – $10,000 = $20,000 of net cash. $(10,000) (**A**) is the amount of the bank loan, $30,000 (**C**) is the amount remaining after paying shareholders, and $50,000 (**D**) is the amount raised by selling stock.

38. At the end of a given year, a business counted too much ending inventory by mistake. Which of the following describes one way in which the overstated ending inventory will affect the business's financial statements for that year?

    A. Liabilities will be understated.

    B. Cost of goods sold will be understated.

    C. Net income will be understated.

    D. Owner's equity assets will be understated.

Correct Response: B. Mistakenly over-counting the ending inventory will reduce the amount in the cost of goods sold account and overstate the gross profit and net income. The cost of goods sold (COGS) formula is: beginning inventory + purchases – ending inventory = COGS. If the beginning inventory and purchases remain the same, a larger value of ending inventory will reduce the value of the costs of goods sold and it will be understated. Liabilities are not affected by inventory counts, so the liabilities will not be understated (**A**). When cost of goods sold is understated, both net income (**C**) and owner's equity assets (**D**) are overstated.

39. The breakeven point for a product would be most likely to rise when:

    A. costs for raw material have decreased.

    B. production is running at maximum capacity.

    C. more factory space is needed due to increase in production.

    D. inventory is lower due to seasonal decrease in sales.

Correct Response: C. The breakeven point is when revenue equals total costs. One way the breakeven point will rise is when expenses rise, since these are related to costs. Increasing the amount of factory space needed for production is likely to increase costs, which will cause the breakeven point to rise. The company will need to generate more revenue to break even. If the cost of raw materials decreases, then the company's breakeven point will decrease (**A**). Production running at maximum capacity (**B**) is likely to reduce the cost per unit produced, which will reduce the breakeven point. Lower inventory due to mid-season stock shortages will cause a decrease in sales, which in turn will cause a reduction in revenue but will not alter the breakeven point, which will essentially remain the same (**D**).

40. A business that makes only one type of product sold 10,000 units at $50/unit and made a profit of $100,000 last year. The manager is forecasting that another 12,000 units will be sold this year. Assuming that the unit price, the variable cost of $20/unit, and the fixed costs remain at the same level, what will be the total profit if sales increase to 12,000 units?

    A. $104,000

    B. $112,000

    C. $160,000

    D. $200,000

Correct Response: C. The 10,000 units at $50/unit profit of $100,000 will remain the same, and the additional 2,000 units at $30/unit profit is $60,000, which gives a total profit of $160,000. Response **A** results by finding the increase in sales as (10,000 units/50) = 200 units, multiplying this by $20/unit, and adding the result to the $100,000 profit. Response **B** results from adding 12,000 to 100,000. The value $200,000 is the variable cost, which is found by ($20/unit)(10,000 units) (**D**).

41. A customer's total bill for two perennial plants is $10. The cashier informs the customer that there is a discount of 10% on quantities of 10 or more perennials. The customer decides to get 10 more plants. What will be the customer's total bill for the 12 plants?

    A. $48

    B. $54

    C. $55

    D. $60

Correct Response: B. The first step in solving this problem is to determine the price for each perennial ($5) and then multiply the $5 by the total amount of perennial plants (12), which equals $60. To find the discount, find 10% of 60, (0.10)(60) = $6. Subtracting this from $60 gives the customer's total of $54. Response **A** comes from subtracting $12 from $60. Response **C** comes from finding a 10% discount on the first 10 plants, which is $5, and subtracting that from the $60 cost. Response **D** is the cost of 12 plants at $5 per plant with no discount.

42. **Use the list of salaries below to answer the question that follows.**

Employee	Annual Salaries $
A	65,000
B	60,000
C	43,000
D	36,000
E	32,000
F	24,000
G	20,000
H	20,000
I	20,000
J	20,000

According to the list above, which of the following is the median salary of the employees shown?

A. $20,000

B. $28,000

C. $34,000

D. $36,000

Correct Response: B. The median of a list of numbers is the number at which half the numbers in the list are higher and half the numbers in the list are lower. To find the median, rewrite the list of numbers in numerical order. If there are an odd number of elements in the list, the median is the number in the middle. If there are an even number of elements in the list, find the midpoint of the two numbers in the middle by adding them and then dividing by 2. The resulting number is the median. The list is sorted, has 10 elements, and 10 is an even number, so the median = ($24,000 + $32,000)/2 = $54,000/2 = $28,000. Response **A** is the mode, the number that appears most often. Response **C** is the mean, or the arithmetical average, and response **D** is found by selecting an element from the list closest to the middle of the list.

43. An insurance company sells life insurance policies for $300 each. Each policy carries a death benefit of $120,000. The probability that a policyholder will claim the death benefit during the year is 1 in 600. If the company expects to sell a minimum of 1,200,000 policies, what is the expected profit per policy sold?

    A. $ 50

    B. $100

    C. $200

    D. $250

Correct Response: B. Since the probability that the company will pay a claim is 1 in 600, the company can expect to pay (1/600)(1,200,000) = 2,000 claims per year. The total earned from selling policies in a year is (1,200,000 policies)($300/policy) = $360,000,000. If 2,000 claims are paid, then 2,000 x $1,200,000 = $240,000,000 is paid per year. The difference is $360,000,000 - $240,000,000 = $120,000,000, which is the total profit. To find the profit per policy, divide this by the number of policies or $120,000,000/1,200,000 policies = $100 per policy. Response **A** is 50% of $100, response **C** is twice $100, and response **D** is (2.5)($100).

44. A car dealer sells cars in 4 colors. Black is the least popular color. Red and blue are twice as popular as black. Silver is twice as popular as red and blue. What is the probability that the next car sold will be silver?

A. $\frac{3}{4}$

B. $\frac{5}{7}$

C. $\frac{1}{2}$

D. $\frac{4}{9}$

Correct Response: D. Assume that 10 cars are sold in black, then twice as many are sold in red and blue, which would be 20 red cars, and 20 blue cars. Silver is twice as popular as red and blue and thus 40 silver cars are sold, for a total of 90 cars. The probabilities of black, red, blue, and silver are, respectively: $\frac{10}{90}$, $\frac{20}{90}$, $\frac{20}{90}$, and $\frac{40}{90}$. Each fraction is then reduced to: $\frac{1}{9}$, $\frac{2}{9}$, $\frac{2}{9}$, and $\frac{4}{9}$. The probability that the next car sold is silver is $\frac{4}{9}$. Response **A** comes from assuming that since silver is 4 times as popular as black, the probability must be $\frac{3}{4}$, or $\frac{1}{4}$ less than 1. Response **B** comes from reasoning as above but interpreting the situation as 5 black, 5 red, 10 blue, and 50 silver. Response **C** results from assuming 20 red, 20 blue, and 40 silver, and neglecting to count the number of black cars.

45. Which of the following would most accurately calculate the maturity value (M) of a deposit of \$5,000 earning 4% per year compounded semiannually for 2 years?

    A. $M = \$5{,}000\ (1 + 0.02)^2$

    B. $M = \$5{,}000\ (1 + 0.04)^4$

    C. $M = \$5{,}000\ (1 + 0.02)^4$

    D. $M = \$5{,}000\ (1 + 0.04)^2$

Correct Response: C. To calculate the maturity value (M) of a deposit of \$5,000 earning 4% per year compounded semiannually, the effective interest rate is 4%/2 years, or 2%/year. The deposit will be compounded twice a year, or 4 times total. Therefore, $M = \$5{,}000\ (1 + 0.02)^4$. In response **A** the effective interest rate is correct, but it is only compounded 2 times. In response **B** the interest rate (0.04) is incorrect. In response **D**, the interest rate (0.04) and the number of times compounded (2) are incorrect.

46. A cell phone distributor has an ending inventory of 400 phones with a total retail value of \$11,700. There are two types of phones, the G phones that retail for \$65 each, and the Z phones that retail for \$15 each. How many G phones does the distributor have?

    A. 57

    B. 114

    C. 187

    D. 234

Correct Response: B. Let g = the number of G phones, and z = the number of Z phones. The total number of phones is 400, so $g + z = 400$. Each G phone has a retail value of \$65, and each Z phone has a retail value of \$15, so the value of the G phones is 65(number of G phones) = $65g$, and by the same reasoning the value of the Z phones is $15z$. The total value of the two phones is \$11,700, so the following equation is true: $65g + 15z = 11{,}700$. Solving two equations for g gives $g = 114$. Response **A** is 114/2 = 57, which is the number of G phones divided by two. Response **C** results from adding the total value of phones and the total number of phones, and then dividing by the higher-priced phone: 11,700 + 400 = 12,100 and 12,100/65 = 187. Response **D** results from dividing the total value of phones by the difference in price between the two phones: 11,700/(65 – 15) = 11,700/50 = 234.

47. Which of the following examples best illustrates the economic concept of diminishing marginal utility?

    A. A person who eats dinner at a particular restaurant three days in a row chooses to eat at a different restaurant on the fourth day.

    B. A new car costs $500 to maintain for the first year after its purchase, $1,000 for the second year, and $2,500 for the third year.

    C. The cost per unit of producing brooms at a factory decreases as the number of brooms produced per month increases.

    D. The price of a particular model of digital camera declines after the camera has been on the market for several years.

Correct Response: A. The law of diminishing marginal utility states that the more a person consumes of a product, the less utility the person derives from the product. Of the given situations, the best example is when a person eats dinner at a particular restaurant three days in a row. His or her desire to consume food at the same restaurant diminishes by a little more each day. By the fourth day, he or she may decide to eat somewhere entirely different. Response **B** is an example of operating costs. Response **C** is an example of decreasing unit costs as production increases. This occurs because the same fixed costs are spread over more units, reducing the cost to make each unit. The decline stage is the last stage of the product life cycle and corresponds to the time when consumers stop buying a product (**D**).

48. Which of the following best describes one difference between a free-market system and a monopoly?

    A. The supply of goods in a monopoly is likely to more closely reflect demand.

    B. Goods sold in a free-market system are likely to be of higher quality than equivalent goods sold in a monopoly.

    C. Consumers are likely to have more choices of styles available for goods sold in a monopoly.

    D. Goods sold in a free-market economy are likely to be higher in price than equivalent goods sold in a monopoly.

Correct Response: B. A free-market system is more likely to produce a high quality product for consumers than is a monopoly. Free market producers compete with one another to create better products and provide consumers with more choices for products to purchase. A free-market system is based on supply and demand determined by consumers' wants and needs, not a monopoly (**A**). A free-market system offers more choices since producers are constantly competing to gain market share, whereas a monopoly reduces consumer choice (**C**). In a free-market system, producers also compete to push prices lower in order to gain market share. A monopoly dominates the market and controls the pricing. The focus is to eliminate competition so consumers have no choice but to purchase their products at inflated prices (**D**).

49. Prices are most closely determined by the interaction of supply and demand in which of the following types of market structures?

    A. oligopoly

    B. perfect competition

    C. monopoly

    D. monopolistic competition

Correct Response: B. A situation in which prices are closely determined based on the interaction of supply and demand is an example of perfect competition. The equilibrium price for a product is determined when supply equals demand. An oligopoly (**A**) is a market structure where a small number of sellers take over the market and collaborate to eliminate outside competitors. A monopoly (**C**) is a market structure where one firm takes over the entire market of a product, eliminating any form of competition. Monopolistic competition (**D**) involves multiple suppliers offering consumers closely substitutable or similar goods at varying price ranges. Because the products serve the same purpose there are less options for each seller to stand out from the others. In monopolistic competition, price varies depending on supplier and thus is not determined based on supply and demand.

50. Which of the following best explains why the U.S. automobile industry is considered an oligopoly?

    A. The cost of owning an automobile is greater than ten percent of an average family's income.

    B. The automobile industry is one of the top three industries in the United States in terms of its contribution to the gross domestic product.

    C. Seventy-five percent of automobile sales are accounted for by the four largest firms in the industry.

    D. Automobiles are sold to consumers through independent dealerships rather than directly from the manufacturer.

Correct Response: C. An Oligopoly is a market in which a few firms have a large majority of the market. The automobile industry is considered an oligopoly because just a few large firms dominate the market and produce similar products with differentiated features. The cost of owning an automobile (**A**) does not necessarily create an oligopoly structure. The fact that the U.S. automobile industry contributes a large amount to the gross domestic product (**B**) is not related to the oligopoly structure of the industry. Automobiles that are sold directly from a manufacturer to independent dealers (**D**) is a form of marketing distribution; this is unrelated to the nature of an oligopoly.

51. A rise in production costs that is passed along to the consumer in the form of a significant price increase would likely lead to the greatest reduction in demand for which of the following products?

    A. new houses

    B. wheat

    C. detergent

    D. pencils

Correct Response: A. Price elasticity of demand is a measure of how the demand for a product changes when the price changes. If a small change in price creates a large change in demand, the demand for the product is elastic. If a rather large change in price does not have a large effect on the demand, the demand for the product is inelastic. The elasticity of demand depends on a variety of factors such as availability of substitute goods, brand loyalty, and necessity. Of the products listed, a rise in production costs will most likely lead to a large reduction in the demand for new houses. The demand for new houses is elastic because people will continue to rent and wait until the market changes and house prices decrease. People may also decide to purchase an older house. On the other hand, the demand for wheat (**B**) is relatively inelastic; people will still continue to purchase bread, pasta, and other products even if the price goes up. Detergent (**C**) is also demand inelastic, because consumers will still need to purchase detergent to wash clothes, dishes, floors, etc. Pencils (**D**) are also relatively demand inelastic due to the higher price of substitute products such as pens and markers.

52. A jewelry store has operated in a small town for over 30 years and has always turned a reasonable profit without resorting to sales or other types of marketing promotions. Which of the following events would most likely cause store managers to rethink this strategy and significantly increase the amount of resources allocated to promoting the store's products?

    A. Store managers are planning to renovate the store and add better lighting and new display cabinets.

    B. Price increases for several types of precious stones make it unfeasible for the store to carry certain items.

    C. Store managers expect that short-term demand for the store's products will increase.

    D. An outlet for a discount chain of jewelry stores has opened up in a neighboring town.

Correct Response: D. Of the responses listed, the introduction of a discount jewelry outlet in a nearby town represents significant competition and is likely to have the greatest effect on the store's marketing strategy. The small store can expect price competition and product competition, and will need to rethink how they price and promote their goods to maintain their customer base and sales. A store renovation may attract some new customers and provide better product display, but it will not require a significantly new strategy (**A**). If the store cannot carry certain high-end items due to price increases then it doesn't cater to the high-end market niche, so this change will have little effect on their strategy (**B**). An increase in short-term demand may require that the store boost inventory of some products, but it will not require a new promotional strategy (**C**).

53. A company produces catalytic converters for the automobile industry. Each converter contains a small amount of platinum as a catalyst. If the supply curve for platinum shifts to the left, the company that makes the converters would most likely respond by:

    A. raising the price of each converter.

    B. reducing the amount of platinum in each converter.

    C. increasing production of converters.

    D. offering new customers discounts on purchases of its converters.

Correct Response: A. If the supply curve for platinum shifts to the left, the price for a given quantity of platinum has increased. The cost to produce a catalytic converter will therefore increase and the company will most likely respond by increasing the price of a converter. Reducing the amount of platinum in each converter would require significant design changes, and perhaps significant technological innovation, since the current design probably uses the least amount of platinum possible due to its high cost (**B**). An increase in production of converters is unlikely, since the price to make a converter will have increased and demand is more likely to decrease than increase (**C**). Offering new customers discounts on purchases will boost demand and, if converters cost more to make, decrease profits (**D**).

54. Which of the following will occur if consumption, as a percent of gross domestic product (GDP), decreases and there are no other offsetting changes?

    A. Employment levels will decrease.

    B. Inflation will increase.

    C. Inventories will decrease.

    D. Production will increase.

Correct Response: A. The gross domestic product (GDP) is a measure of the value of all the goods and services produced within a country in a given time period. A decrease in consumption, with no other offsetting changes, will result in a decrease in the GDP, which will be accompanied by decreasing employment levels. If goods and services are not being purchased, then fewer workers will be needed to produce the goods and services. Inflation will increase when consumption increases (**B**). If consumption decreases, fewer goods are being purchased and inventory levels will most likely either remain the same or increase over time (**C**). When there is an increase in production, there will be an increase in GDP, followed by an increase in employment levels (**D**).

55. One function of money is that it allows value to be stored easily. Which of the following best explains one advantage of using money to store value rather than other assets such as real estate or fine art?

    A. Money can be exchanged at any time for an equivalent value of gold or silver.

    B. The purchasing power of money does not change over time.

    C. Money is more liquid than most other assets.

    D. Interest paid on invested money is generally greater than the gains in value of other assets.

Correct Response: C. An advantage of using money to store value rather than investing in other assets such as real estate or fine art is that it is easier to convert money into goods and services with no risk or penalty. Money is the most liquid asset and is readily converted to cash. Although money can be exchanged for an equivalent value of gold or silver, changes in the market values of those commodities provides risk (**A**). The purchasing power of money value depends on inflation, exchange rates, and government policy (**B**). Interest paid on invested money is generally less than the gains in value of other assets, such as real estate, stocks, and bonds (**D**).

56. Compared with a country that has a largely capitalist economy, one that has a largely socialist economy is more likely to have:

    A. reduced barriers to free trade.

    B. lower taxes on businesses and workers.

    C. greater personal freedom.

    D. greater government control of major industries.

Correct Response: D. A socialist economy is based on a belief in shared ownership of means of production, distribution, and exchange. In a socialist economy, the government controls the process of production, and therefore has greater control of that nation's industries. Reduced barriers to free trade is a feature of a capitalist economy not a socialist economy, as capitalism is opposed to government intervention in the economy (**A**). Lower taxes on businesses and workers is another feature of capitalism, since capitalists view taxes as government intervention (**B**). Capitalism offers greater personal freedom in the sense of allowing individuals to own private property, operate businesses, and accumulate wealth (**C**).

57. Compared with mixed economic systems, systems characterized by free-market capitalism tend to have:

    A. greater social and economic inequality.

    B. lower rates of productivity and economic growth.

    C. more frequent incidences of scarcity or oversupply.

    D. fewer consumer choices of products and services.

Correct Response: A. A mixed economic system combines elements of socialism and the free market. In most cases this results in public services such as education, social security, and government subsidizing of transportation and health care, alongside the accumulation of capital, private property, and for-profit businesses. The goal of financing public services using a portion of the country's economic resources is to ensure that individuals have knowledge, skills, and health to function in the global marketplace, which tends to reduce social and economic inequality. Free-market capitalism is much more likely to result in greater social and economic inequality, since capitalism creates winners and losers, and over time tends to result in a small percentage of the population controlling the majority of a country's wealth. Free-market capitalism tends to maximize rates of productivity and economic growth since there are no government regulations to control or slow excessive production and consumption (**B**). Free-market systems respond quickly to either scarcity or oversupply, whereas these problems can be unintended consequences of government intervention in the economy (**C**). Free-market capitalism usually offers greater choice since individuals are free to innovate and compete, resulting in the generation of more products for consumers (**D**).

58. Which of the following is the most important factor in bringing about the end of the expansion phase of a business cycle and the beginning of a recession?

    A. a decline in spending by businesses and consumers

    B. an increase in prices for consumer products and services

    C. a fall in short-term interest rates

    D. a rise in business productivity

Correct Response: A. The business cycle is caused by changes in economic activity and generally consists of expansions and recessions. Expansion is characterized by an increase in production, employment, and consumer spending. The end of the expansion phase occurs when there is a decline in spending by businesses and consumers, and the economy begins to contract. An increase in prices for consumer products and services would indicate the business cycle is in the expansion phase (**B**). A fall in short-term interest rates would occur when the economy is already in a recession and the central bank has lowered rates (**C**). A rise in business productivity is an indication the economy is expanding (**D**), not contracting.

59. Which of the following is the best example of structural unemployment?

    A. Additional sales staff hired at a business during the holiday season are laid off after the season ends.

    B. A decline in sales due to a recession forces a business to lay off 20% of its workforce.

    C. A group of skilled workers lose their jobs when technological advances render their skills obsolete.

    D. Workers for a company that goes out of business are unemployed while they search for new jobs.

Correct Response: C. Structural unemployment is a long-term form of unemployment due to fundamental changes in the economy that make the knowledge and skills of a group of workers out-of-date and no longer useful. A group of skilled workers losing their jobs when technological advances render their skills obsolete is an example of structural unemployment. Seasonal or holiday unemployment is not structural unemployment, since it is temporary and not the result of fundamental changes in the economy (**A**). A recession causing layoffs is not structural unemployment, since the jobs will come back when the recession ends. This is cyclical unemployment (**B**). When a company goes out of business and lays off employees, the employees are still marketable employees (**D**). Frictional unemployment is the period when a worker is searching for or transitioning from one job to another.

60. Which of the following actions is the Federal Reserve most likely to take in response to an increase in the inflation rate?

    A. decreasing reserve requirements of financial institutions

    B. increasing its sales of U.S. government treasury securities

    C. decreasing the discount rate charged to banks

    D. increasing the amount of money printed at the U.S. mints

Correct Response: B. Inflation is a period of rising prices. Inflation is caused by too much money circulating in the economy. Governments often use monetary policy to control inflation when its rate becomes too high. One way to do this is to for the Federal Reserve to increase sales in U.S. government treasury securities. Increasing sales of treasury securities effectively removes money from the marketplace, exchanging cash for bonds. Reserve requirements are the amounts of funds that banks must hold in reserve against deposits. Decreasing the reserve requirements allows banks to lend more, which would increase the money supply and increase inflation (**A**). Decreasing the discount rates makes it cheaper for commercial banks to borrow money, which results in an increase in lending activity and an increase in inflation (**C**). Increasing the amount of money printed puts more money in the hands of consumers and increases spending; this results in prices rising, and inflation is expected (**D**).

61. An advertisement for a men's cologne shows a ruggedly handsome mountain climber clinging to a cliff side and laboriously hauling himself up to the top, where he stands and surveys the surrounding countryside. The ad then cuts to the same man eating dinner at a restaurant with a beautiful woman. This ad most likely appeals to which of the following consumer characteristics?

    A. social network

    B. subculture

    C. self-image

    D. life cycle

Correct Response: C. Self-image is how an individual sees him- or herself in society. It involves things such as body image and personality. It can also include a person's role in society, such as student, parent, or family member. In the advertisement, marketing professional are appealing to an idealized version of self-image to influence buying behavior. Social network (**A**), or reference group marketing, involves understanding how peers and friends influence purchasing decisions. Marketing to subcultures (**B**) involves appealing to a person's religion, ethnic background, geographic region, language, etc., to sell products. Life cycle marketing (**D**) deals with how consumers interact with a given brand. The stages of life cycle marketing include awareness of the brand, engagement (purchasing), retaining the customer, building customer loyalty, and encouraging customer advocacy of the brand.

62. Which of the following is one difference between business-to-business marketing and direct marketing to consumers?

    A. Business-to-business marketing plans rely more heavily on large-scale promotional campaigns for individual products.

    B. Business customers are more likely to make their buying decisions based on actual, rather than perceived, wants and needs.

    C. Business-to-business marketing plans rely more heavily on niche and other types of differentiated marketing strategies.

    D. Business customers are likely to have a considerably wider range of competing products from which to choose.

Correct Response: B. Business-to-business (B2B) marketing involves the sale of one company's product or service to another company. B2B purchases are typically more goal directed than are consumer purchases. B2B purchases involves a great deal of research to define a product or service need and therefore B2B customers are more likely to make purchases based on actual wants and needs than are typical consumers. While a B2B marketing strategy may use a large-scale promotional campaign (**A**), this approach is much more common when marketing to consumers. While there are some specialized areas in B2B marketing, niche marketing is more targeted on the consumer markets (**C**). The B2B range of competitive products is not considerably wider than the consumer market (**D**).

63. A company would most appropriately conduct extensive test-marketing of a new product when:

    A. little or no competition for the product currently exists.

    B. the product is an addition to an already existing product line.

    C. an undifferentiated strategy will be used to market the product.

    D. the costs of introducing the new product are high.

Correct Response: D. A company would most likely conduct extensive test-marketing of a new product when the cost of introducing the new product is very high. High introduction cost implies high-risk, and test-marketing can help reduce risk by obtaining critical feedback and learning how the product will be received and how product expectations will be met. There is no need to conduct extensive test-marketing for a new product where there is little or no competition (**A**). Adding a new product to an already existing product line (**B**) is relatively low-risk since the product line already exists. Selecting an undifferentiated test-marketing strategy is more related to identifying a large target market with little market segmentation and does not necessarily imply that the new product will need to undergo extensive test-marketing (**C**).

64. A company would be most likely to use a price-skimming strategy for a product in which prices are set high to maximize profits when:

    A. a product's sales have declined as it nears the end of its life cycle.

    B. the company is trying to capture market share for the product in a highly competitive market.

    C. a newly introduced product is popular and has little competition.

    D. the company wishes to recoup costs associated with a failed product that will soon be pulled from the market.

Correct Response: C. Price-skimming involves setting a high initial product price in order to regain costs and then lowering the price over time as demand falls off. This strategy is most effective when the new product is popular and has little competition. A product nearing the end of its life cycle (**A**) will have trouble being sold at any price, especially at a higher price. Price-skimming seeks to attract a small segment of early adopters willing to pay higher prices and is not as effective at capturing market share (**B**). A company wishing to recoup costs associated with a product in the decline stage will not increase profits by increasing the price, since higher prices will result in decreased sales (**D**).

65. Marketers at a company would be most likely to offer product discounts to customers under which of the following circumstances?

    A. The product has little competition in its market from other products.

    B. Development and production costs for the product are high.

    C. A market differentiation strategy is used to market the product.

    D. The company has high inventories of the product.

Correct Response: D. Inventory can be expensive. It costs money to store and manage goods, and inventory also represents a lot of non-liquid capital. A company with high product inventories would likely offer product discounts to customers to turn the inventory into revenues. A product that has little competition in the market (**A**) is more likely to be sold at higher prices to maximize profit. With development and production costs high, the opportunity to sell the product at a discount is less likely (**B**). Although a market differentiation strategy may highlight the unique features of the product, it would not necessarily be accompanied by a price reduction (**C**).

66. Which of the following is the best example of marketers in a company using a "push" strategy of marketing for breakfast cereal?

    A. including a toy in the company's brands that are marketed to children

    B. placing coupons for the company's brands in newspaper inserts

    C. advertising the company's brands on popular television shows

    D. convincing retailers to provide more shelf space for the company's brands

Correct Response: D. A push strategy involves placing the product in plain view of the customer so the customer is aware of the product. This can be done via trade shows, end displays, showrooms, etc. Of the examples given, convincing retailers to provide more shelf space would increase visibility and bring the product to the customer. This is an example of a push strategy. Offering a free prize with every purchase marketed to children as a target audience is a pull strategy. A pull strategy is designed to bring the customer to the product (**A**). Including vouchers and coupons in newspapers and magazines is also a pull strategy (**B**), as is advertising on popular television programs (**C**).

67. A company that makes fishing rods and other angling equipment is setting up a web site to market its products online. In designing the web site, it would be most important to:

    A. maximize the use of state-of-the-art graphics in the site.

    B. minimize the complexity of navigating the site.

    C. maximize the interactive capability of the site.

    D. minimize the number of links provided by the site.

Correct Response: B. One key criteria for designing a new web site would be to make the site easy to navigate. The users should be comfortable, interested, and relaxed as they maneuver within the web site. The process of finding a product and purchasing a product should be simple and seamless. Any distractions that could interfere with the transaction should be avoided. Although a web site utilizing state-of-the-art graphics can be appealing to the eye, graphics for their own sake could be a distraction (**A**). A web site that maximizes interactive capability risks losing the original interest of the visitor (**C**). Minimizing the number of links may be advisable, but as a design feature it is not as important as minimizing the number of clicks needed to complete a transaction, which is a component of navigation complexity (**D**).

68. The removal of many barriers to free trade over the past two decades has lead most directly to:

    A. a decrease in the price of most consumer goods.

    B. an increase in the stability of foreign exchange rates.

    C. a decrease in the gross domestic product of less-developed nations.

    D. an increase in the comparative advantage of U.S. manufacturing.

Correct Response: A. Free trade agreements are intended to eliminate barriers to trade and investment among the participating countries. U.S. trade agreements with other countries have resulted in a decrease in the price of most consumer goods. This is because many low-skilled jobs once performed in the U.S. are now being done by trading partners with less developed economies. Foreign exchange rates are affected by multiple factors, including trade, and may vary for a variety of reasons (**B**). Trade agreements have significantly increased the gross domestic product (GDP) of less-developed trading partners (**C**). Trade agreements tend to maximize the comparative advantage of each of the trading partners. Most trade agreements are with less developed countries, and less developed countries have a comparative advantage in manufacturing due to low labor costs and fewer environmental regulations (**D**). Therefore these trade agreements actually decrease the comparative advantage of U.S. manufacturing.

69. Multinational corporations are often highly vertically integrated and distribute their production and assembly tasks to many facilities located in different countries. This gives these corporations a competitive edge by:

    A. allowing them to assign tasks to facilities in countries that have a comparative advantage for that task.

    B. establishing brand loyalties in those countries in which they have production or assembly facilities.

    C. reducing costs for transporting inputs to production centers and finished products to consumers.

    D. allowing them to assign tasks to facilities in countries that have high trade barriers.

Correct Response: A. The law of comparative advantage is based on the idea that different countries will have different opportunity costs for engaging in an economic activity. Some countries may have a comparative advantage in manufacturing, while others in agriculture, finance, high technology, etc. A multinational corporation that has operations distributed throughout many countries can take advantage of the comparative advantage that each country offers. While the company may generate brand loyalties where they manufacture goods (**B**), it is more likely that most of the goods produced are for exporting, not domestic consumption. Transportation costs may be reduced in some situations (**C**), but these cost savings would not be as effective as maximizing comparative advantage across the spectrum of company activities. Assigning tasks to countries with high trade barriers (**D**) would result in tariffs and other excessive costs, and would not result in a competitive edge.

70. A government wishes to protect its agricultural sector by ensuring that domestic producers can sell their products at lower prices than those of imported commodities. The most effective way for the government to do this without raising tariffs would be to:

    A. establish price supports for both domestic and imported commodities.

    B. set import quotas on imported commodities.

    C. require foreign firms to enter into joint ventures with domestic partners.

    D. provide subsidies to domestic producers.

Correct Response: D. One way to ensure that domestic producers sell their products as lower prices than imports would be to provide subsidies such as direct cash payments, low interest loans, reduced insurance rates against weather and pest damage, and disaster aid. If correctly designed, these measures will reduce the cost of production and allow producers to keep prices lower than imports. While these actions run counter to the notion of free trade, all countries tend to subsidize agricultural production to some degree. Creating price supports for both domestic and imported commodities (**A**) would most likely cause the price of both domestic and imported products to increase. Placing a quota on imports (**B**) would violate most trade agreements and could lead to a trade war. A joint venture, which is an arrangement between two or more businesses from different countries, will not help domestic producers keep their prices low (**C**).

71. The Organization of Petroleum Exporting Countries (OPEC) influences the world oil market primarily by:

    A. manipulating supply.

    B. providing subsidies to producers.

    C. adjusting demand.

    D. setting prices.

Correct Response: A. The Organization of Petroleum Exporting Countries (OPEC) influences the world oil market by manipulating the supply. This is achieved by having member states place a cap on production, or limit the amount of oil they are willing to produce for the global market. This in turn reduces supply and, given that demand is high and inelastic, that causes the price of petroleum to increase. OPEC does not offer subsidies to producers (**B**). Decreasing demand would require decreasing the use of petroleum, which has proved to be very difficult (**C**). OPEC reduces supply and allows prices to be set by the market; OPEC does not establish the price of petroleum on the market (**D**).

72. Which of the following best describes one of the primary functions of the World Bank?

    A. setting interest rates that one country can charge another country to which it loans money

    B. regulating the international money supply

    C. providing low or no interest loans or grants to low income countries to promote economic growth

    D. setting the exchange rates used in international trade

Correct Response: C. The mission of the World Bank is to end extreme poverty and to promote shared prosperity. It does this primarily by offering developing countries monetary assistance with low or no interest loans, offering advice and training, and providing technical assistance to promote economic growth. Interest rates are influenced by market forces and are not set by the World Bank (**A**). The international money supply is influenced by the central banks of nations and is not a function of the World Bank (**B**). The exchange rates used in international trade are determined by the market forces of supply and demand (**D**), not by the World Bank.

73. Cultures often differ in the importance that individuals place on social rank. In their initial contacts with unfamiliar counterparts from such a culture, U.S. business managers should emphasize:

    A. aggressive negotiating tactics.

    B. friendly interpersonal relationships.

    C. formal and respectful interactions.

    D. cooperative consensus building.

Correct Response: C. Initial business interactions are formal and require careful attention to cultural values, beliefs, and perceptions. A cross-cultural study should be conducted prior to meeting with unfamiliar counterparts to learn about cultural courtesies and cues that are expected in formal and respectful interactions. Although aggressive negotiating tactics may be used in some business situations (**A**), a more respectful strategy should be used for initial meetings. In many cultures, friendly, interpersonal relationships may be perceived as disrespectful; it is best to allow interpersonal relationships to develop naturally (**B**). Cooperative consensus building is not appropriate during initial contacts with business leaders from other countries as it may be perceived as being disrespectful (**D**).

74. Which of the following is the best definition of cultural stereotyping?

    A. perceiving another culture to be more homogeneous than it really is

    B. interpreting the actions of people from other cultures based on one's own cultural experiences

    C. believing that one's own culture is superior to any other culture

    D. interpreting people's actions based only on situational context rather than cultural considerations

Correct Response: A. To stereotype is to assume that all people from a particular group have the same characteristics. Cultural stereotyping involves perceiving all the people from a single culture to be more alike, or homogenous, than they actually are. Interpreting the actions of people from other cultures based on one's own cultural experiences is ethnocentrism, which is different from stereotyping (**B**). The belief that one's own culture is superior to any other culture is cultural superiority, sometime called cultural imperialism; cultural superiority is similar to ethnocentrism (**C**). Interpreting people's actions based only on situational context rather than cultural considerations is the opposite of stereotyping (**D**).

75. Which of the following statements about the role of small businesses in the U.S. economy is true?

    A. Small businesses provide more capital to the U.S. economy than do large businesses.

    B. Small businesses contribute the majority of tax revenue to the U.S. Treasury.

    C. Small businesses provide more jobs in the U.S. economy than do large businesses.

    D. Small businesses generate most of the U.S. gross domestic product.

Correct Response: C. The Small Business Association (SBA) reports that small businesses provide both the majority of all U.S. jobs and the majority of all *new* U.S. jobs. Small businesses do not generate as much capital as large corporations (**A**), nor do they contribute the majority of tax revenue (**B**). Large businesses generate most of the U.S. gross domestic product, the value of final goods and services produced and marketed in the U.S. during a given period of time (**D**).

76. In general, successful entrepreneurs are most likely to be:

    A. self-confident.

    B. cautious.

    C. idealistic.

    D. pessimistic.

Correct Response: A. Successful entrepreneurs are likely to be self-confident and determined to succeed. Entrepreneurs possess a high level of optimism and confidence in their abilities and their ideas. Most entrepreneurs are more prone to take risks than they are to be cautious (**B**). Successful entrepreneurs are results-oriented and versatile, and are less likely to be idealistic when it comes to taking risks (**C**). An entrepreneur who is pessimistic is unlikely to take the risks needed to achieve success (**D**).

77. Entrepreneurs are often more successful than large corporations in penetrating markets that are relatively saturated because entrepreneurs are usually better able to:

A. remain in the market despite setbacks.

B. design innovative advertising campaigns.

C. comply with consumer protection laws.

D. address specialized needs of customers.

Correct Response: D. Entrepreneurs are more successful than large corporations in penetrating markets that are relatively saturated because they can more easily maneuver to address the specialized needs of customers. Due to their size, large corporations face many difficulties being nimble and adapting to new trends, ideas, or technologies to meet customer's needs in saturated markets (**A**). While marketing and advertising are essential for any business, most entrepreneurs achieve success primarily by product or service innovation (**B**). Any business, small or large, is required to abide by consumer protection laws (**C**).

78. Which of the following describes a significant difference between a limited liability company (LLC) and a standard corporation?

    A. LLCs are not covered by government antitrust laws.

    B. LLCs are allowed to transfer all income tax to members.

    C. LLCs are required to file articles of organization with the state.

    D. LLCs are independent entities solely responsible for their debts.

Correct Response: B. The most significant difference between a limited liability company (LLC) and a standard corporation comes down to how they are taxed. Owners of a limited liability company are taxed like partners in a partnership; they pay taxes on their share of profit and on their personal tax returns. A standard corporation is taxed twice, once as a corporation and again as shareholders when dividends are disbursed. Both LLCs and standard corporations must follow government antitrust laws (**A**). Both LLCs and corporations are required to file articles of organization with the state they are associated with (**C**). LLCs have limited liability in the same way as corporations; the owners of the LLC are not personally responsible for the organization's debts (**D**).

79. An entrepreneur is considering several different locations within a large city for the site of a family-style restaurant. In selecting a location, the entrepreneur should give the highest priority to which of the following types of information?

    A. the proximity of each location to schools, libraries, and other public buildings

    B. the number and characteristics of media outlets in each area

    C. the proximity of each location to supermarkets and other sources of supplies

    D. the number and characteristics of similar restaurants in each area

Correct Response: D. When considering several different locations for a family-style restaurant, the highest priority would be the number and characteristics of similar restaurants in each area, since the restaurant will be competing with existing restaurants. The proximity of schools, libraries, and other public buildings (**A**) is of importance, since those institutions could generate potential customers, but that factor would be of a lower priority, as would the focus of media outlets (**B**) and the proximity of supermarkets and other sources of supplies (**C**).

80. A small business that has been in operation for a year would most likely refer to its business plan to:

    A. assess and adjust the business's goals over time.

    B. provide information on products and services for financial backers.

    C. promote the brand name and features of its products and services.

    D. document monthly financial reports and yearly tax returns.

Correct Response: A. A business plan is a detailed document that describes the goals of a business and how the business will achieve those goals. Once the business has been in operation for a year, the plan would be referenced to reassess goals and operations and to make any necessary adjustments to it due to the changing nature of the business climate. The initial version of the business plan would be used to provide information for start-up financial backers, and would most likely not be used for that purpose a year into the business (**B**). A promotional strategy would be included in the marketing plan. The marketing plan goes into more detail than the business plan, which covers all aspects of the business (**C**). Monthly financial reports are prepared for accounting purposes and are too specific and detailed to be part of the business plan (**D**).

81. When applying for a loan to start up a new business, it would be most important for an entrepreneur to:

    A. request a larger amount of money than is actually needed.

    B. provide specifics about how the money will be used.

    C. provide technical information about the proposed business's products.

    D. avoid discussing potential risks the proposed business may encounter.

Correct Response: B. When applying for a loan to start up a new business, the lenders first ask why the money is needed, what the money will be used for, and what assets will be purchased. This information is included in the business plan. Lenders would be very reluctant to provide more money than is needed, since this would indicate poor planning and a poor use of capital (**A**). Loan requests need be to be concise and explicit. Providing technical details about products would be too specific and would only be supplied upon request (**C**). It is essential that there is trust between business owners and lenders. Lenders expect full disclosure of any potential risks. Withholding information would weaken the trust between the entrepreneur and the lender and would severely jeopardize the issuance of a loan (**D**).

82. In the service industry, simulation software is often used to:

    A. determine how changing a company's costs affects its profitability.

    B. create training programs for employees.

    C. capture and analyze real-time sales data.

    D. exchange information between satellite offices.

Correct Response: B. Simulation software models real world situations and offers a realistic training experience. The service industry often uses simulation as part of training programs. The simulation may involve 3D graphics, multimedia, interactive features, and realistic situations that an employee is likely to encounter. Analyzing how costs affect profitability would be more appropriate for spreadsheet or accounting software (**A**). Capturing and analyzing real-time sales data would involve database software and its associated features (**C**). Exchanging information between satellite offices would involve setting up a wide-area-network (WAN), or other type of network (**D**).

83. In slide-show presentation software, the transition feature is used to:

    A. fade graphics and charts in and out of a slide.

    B. create visual interest when changing from one slide to the next.

    C. insert links to other pages in the presentation.

    D. insert a music clip at the beginning and ending of the presentation.

Correct Response: B. The transition feature in a slide-show presentation is a form of animation that is used to change from one slide to another. The transition is an animation that creates visual interest when changing slides. It is recommended that transitions between each slide be consistent so that they do not distract and take away from the point of the presentation. Fading graphics and charts in and out on a slide is a form of animation that is distinct from a slide transition (**A**). Inserting links to other pages (**C**) is a feature that can be used to facilitate navigation, but it is not a transition. While music can be part of a slide transition, inserting music clips at the beginning or end of a presentation (**D**) is not a slide transition.

84. Web addresses that end in which of the following are likely to provide the most unbiased business-related information?

    A. .com

    B. .biz

    C. .net

    D. .gov

Correct Response: D. The domain extension for a web site can offer insight to the type of organization hosted by the site. Web addresses that end with the .gov domain extension is most likely to provide the most unbiased business-related information. The domain extension .gov (Government) includes all branches of the United States federal government. Government web sites typically publish data or reports that are generally considered impartial. The domain extension .com (Commercial) represents commercial sites. Commercial sites are intended to sell, and they may contain biased information (**A**). The domain extension .biz (Business) is used for businesses, and those sites may also contain biased information (**B**). The domain extension .net (Network) does not include any category-specific type of site and information from these sites should be evaluated very critically (**C**).

85. Which of the following questions is most important to ask first when attempting to identify the technology needs of a business?

    A. How much money has been budgeted for technology?

    B. What are the company's business objectives?

    C. What is the current level of employees' technology skills?

    D. How have similar companies used technology effectively?

Correct Response: B. Technology is a business tool and should only be used to help the business be successful in meeting its objectives. Therefore, the first question to ask is how the technology will help the business meet its goals. Although cost is an important factor when considering technology, it is of secondary importance. The business must first determine its needs, and then analyze the costs (**A**). Introducing new technology may require that staff skills be evaluated for potential training, but this action would be taken after the technology has been decided upon (**C**). Companies may be interested how their competition is using technology, but the company needs to first assess its own goals and related technological needs (**D**).

86. Which of the following examples most resembles the Internet security threat known as phishing?

    A. An individual receives an e-mail from a bank asking for his or her account number and PIN for "account verification" purposes.

    B. An employee receives an e-mail attachment from an unknown source that has a file attachment with a .doc extension.

    C. An employee with a wireless network connection attempts to gain access to confidential files on a company's network.

    D. An individual redirects a company's online customers to a fake site that collects and processes the online store's orders.

Correct Response: A. Phishing is a form of fraud that is used to obtain personal information such as passwords, credit cards, and bank account numbers, etc. Phishing is a type of social engineering. It involves sending an e-mail that appears to originate from a legitimate source (e.g., an individual's personal bank, place of employment, or credit card company). The e-mail contains a link to fake web site that looks authentic, and encourages the visitor enter personal information. An e-mail attachment with a .doc attachment could contain a virus, but it is not a form of phishing (**B**). An employee that attempts to gain access to confidential files on a company's network through a wireless network connection is hacking, not phishing (**C**). Pharming is when an individual's original online order is redirected to a fake site; and that site collects personal or sensitive information while processing the online order (**D**).

87. The computer language SQL is most often used to:

    A. encrypt data on the Internet.

    B. embed video files on a web site.

    C. create simple animations.

    D. extract information from a database.

Correct Response: D. The computer language SQL (Structured Query Language) is used to build, populate, and extract information from a database. The information is extracted by using queries. Encryption is a process that encodes information to an unreadable form as a security strategy. Most encryption algorithms are based on the use of public and private keys, not SQL (**A**). HTML, not SQL, is typically used to embed video files on a web site (**B**). Simple animations can be made by quickly displaying related images. There is also software for creating animations, which is not SQL (**C**).

88. In Internet marketing, affiliate programs are most similar to which of the following marketing strategies?

    A. loss leaders

    B. word-of-mouth referrals

    C. subscription services

    D. point-of-sale marketing

Correct Response: B. Affiliate programs are a form of Internet marketing in which revenue is earned by recommending other similar businesses' products on your web site. For example, a person who has an online business selling homemade jams and jellies may provide a link to sites that sell homemade pickles. The jam and jelly business receives a commission when people follow a link from the jam and jelly site and purchase something from the pickle site. Of choices listed, this is most similar to word-of-mouth advertising, since the affiliate site is providing a recommendation to its customers. A loss leader approach (**A**) is when a seller reduces product price to below market cost with the anticipation that customers will be lured to the store or site and will purchase other items while shopping. A subscription service is when a customer pays a fee to have access to a service, such as streaming music or television (**C**). Point-of-sale is a marketing strategy that involves placement of products at the point of sale, such as on the checkout counter at a supermarket, to persuade customers to buy a product on impulse (**D**).

89. In almost all businesses, managers view which of the following personal attributes as most important in an applicant for an entry-level position?

    A. an analytical mind

    B. reliability

    C. an extroverted disposition

    D. humor

Correct Response: B. Of the choices listed, most business managers will select the personal characteristic of reliability as the most important. An analytic mind may be required for some positions, but if the individual is not reliable, the employer cannot trust the employee to get the job done (**A**). The same is true both for an outgoing personality (**C**) and a good sense of humor (**D**).

90. A high school senior plays an active role in a community association. The senior serves as secretary and treasurer, writing and distributing the minutes and keeping track of the group's finances. She also enjoys taking responsibility for arranging group activities, contacting members, and taking on many of the little tasks that help keep the association running smoothly. Based on her role in the association, a personal assessment of this individual would likely include which of the following qualities as one of her strengths?

    A. good judgment

    B. highly developed creativity

    C. superior organizational ability

    D. strong sense of humor

Correct Response: C. The skills associated with writing and distributing meeting minutes, keeping track of the group's finances, arranging group activities, contacting members, and taking on many of the little tasks that help keep the association running demonstrate superior organizational ability. Good judgment requires analyzing information, listening to various points of view, and making sound decisions. While a person with good organizational skills may also have good judgment, that skill is distinct from organizational skills (**A**). Highly developed creativity involves imagination, resourcefulness, and the ability to be innovative; this skill is not directly related to organization (**B**), nor is having a strong sense of humor (**D**).

91. Which of the following is the best example of using a networking strategy in a job search?

    A. calling human resource managers of local businesses to ask about job opportunities

    B. reading job listings on the web sites of major companies

    C. meeting with corporate recruiters at an on-campus job fair to review available positions

    D. asking friends, family, and teachers for leads on possible jobs

Correct Response: D. The word network brings up the idea of being connected. A networking strategy when looking for a job involves using personal connections during the job search. This entails asking friends, family, teachers, and others for leads on possible jobs, since it is likely that someone in a personal network knows employers or about employment opportunities. Calling human resource managers at local businesses, often called cold calling, is an effective strategy but it is different from using a personal network (**A**). Although reading job listings on web sites of major companies is a good approach, this strategy does not involve using a personal connection (**B**). Meeting with corporate recruiters at an on-campus job fair is taking advantage of institutional resources and connections, but it does not involve using a personal network (**C**).

92. A student has made a list of internships that are available at a number of different companies. In deciding which internships would be most likely to help advance his career, the student should first ask himself which of the following questions about each internship?

    A. What can this internship teach me about my chosen field?

    B. How many other individuals with my qualifications are likely to apply for this internship?

    C. How much money will I earn over the course of this internship?

    D. What method will the company use to evaluate my performance during this internship?

Correct Response: A. The primary purpose of an internship is to offer practical work experience in a particular career to people who plan to enter the field. As students are deciding on what internship will best help them advance their career choice, they should consider what the internship can teach them about their chosen line of work. The focus should not be on how many people are likely to apply for the internship, but on how they can market themselves as the best candidate for the internship (**B**). Money should not be the first question to ask. In fact, most internships are not paid. Money considerations should be secondary to questions about what can be learned from the experience (**C**). While it is always important to know how one will be evaluated, this is not the first question that should be asked when seeking an internship (**D**).

93. When a student is making a transition from school to work, job shadowing is most useful for:

A. providing the student with information about the qualifications needed to apply for a particular job.

B. helping the student decide if he or she is interested in pursuing a particular job.

C. teaching the student how to communicate with other workers and managers on the job.

D. giving the student hands-on experience in performing a particular job.

Correct Response: B. Job shadowing involves following and observing an individual in a company perform their work duties during the course of a routine day. The goal is to introduce students to the nature of the work so a student can determine if he or she is interested in that type of job. The primary goal of job shadowing is not to provide the student with a description of the qualifications needed (**A**). Job shadowing may demonstrate the importance of communication for the job, but it is not intended to teach the student any job-related communication skills (**C**), nor is it intended to provide hands-on, job-related experience (**D**).

94. A person is applying for a job at several different companies. Which of the following tactics is most likely to ensure her applications are taken seriously?

    A. customizing the cover letter and résumé used for each company

    B. providing all companies with details about any offer that is made by another company

    C. using a different set of references on each application

    D. mentioning in each cover letter that applications have been sent to several other companies

Correct Response: A. A cover letter is your introduction to your prospective employer. The cover letter demonstrates your interest in the job, draws attention to your resume, and explains how your experience and skills relate to the position. The resume summarizes your experience, education, and skill set. A cover letter and resume should be personalized to the specific job posting to clearly illustrate how and why your skill set is aligned with the company's needs. Sending details about an offer made by another company would be considered impolite and will be detrimental to your job search (**B**). A reference is typically a supervisor or former teacher who can talk about the quality of your work and your work habits. It is not necessary to use a different set of references, since they provide more general information about your character and work ethic (**C**). A cover letter is supposed to describe why your knowledge and skills are a good fit for the position. Including information about other companies is off-topic and could be viewed as impolite (**D**).

95. Variation in the cost of living among geographic areas is influenced primarily by differences in the cost of:

    A. transportation.

    B. food.

    C. health care.

    D. housing.

Correct Response: D. Housing costs vary significantly in different geographic areas. For example, housing costs in metropolitan areas are generally higher than in rural areas. Housing costs can also vary significantly within the same area, neighborhood by neighborhood. Transportation expenses contribute to the cost of living, but the variation in costs is not as significant as for housing (**A**). Food costs fluctuate, but the change is not as substantial as housing costs (**B**). Health care costs also vary, but not nearly as much as housing costs (**C**).

96. A couple is developing a household budget with the goal of increasing their discretionary income. After recording all of their sources of monthly income, they should next determine:

    A. which optional expenditures should be given the highest priority.

    B. the amount of money they would like to save each month.

    C. which of their monthly expenses are relatively fixed.

    D. the value of their assets other than monthly income.

Correct Response: C. After determining their monthly income, the next step is for the couple to determine what expenses are relatively constant, or fixed, each month. Fixed expense are expenses that do not change from month to month and include items such as rent, health insurance, loan payments, etc. Subtracting the fixed expenses from the net income results in the amount of money available for items such as food, clothing, entertainment, and savings. Optional expenditures such as home furnishings, entertainment, and personal allowances can only be determined after the couple knows how much money is available (**A**). A couple cannot determine how much to put aside for saving each month until they have determined their household income less monthly fixed expenses (**B**). Assessing the value of assets will not increase their discretionary income unless they were to sell some of their assets (**D**).

97. Which of the following is the primary advantage of using a home equity line of credit to consolidate and pay off a large credit card debt?

    A. Home equity loans generally do not have fees for late payments.

    B. The monthly payment on a home equity loan does not vary from month to month.

    C. The cost of interest will generally be lower for a home equity loan.

    D. Additional payments can be made on a home equity loan to reduce the life of the loan.

Correct Response: C. A home equity line of credit (HELOC) allows a homeowner to borrow money on the equity that they have generated in their home. Because it is a line a credit, the homeowner can periodically borrow money up to a certain limit. Because the homeowner is using the equity in their house as collateral for the loan, interest rates are lower that with other forms of debt, especially credit card debt. Therefore using a HELOC is a reasonable strategy for paying down credit card debt. All loan types, including HELOC charge a penalty for late payments based on the terms of the agreement (**A**). HELOCs are available in variable, fixed, and hybrid fixed-rate options. A borrower could choose a variable interest rate that changes based on the market conditions (**B**). While additional payments can be made on a home equity loan, additional payments can be also be made on credit card debt (**D**). The advantage of a HELOC is the lower interest rate.

98. Payroll taxes, such as the Social Security tax, differ from federal and state income taxes in which of the following ways?

    A. Payroll taxes are paid by both the employer and by the employee.

    B. Federal and state income taxes are withheld by the employer from each employee's paycheck.

    C. Payroll taxes are not collected on the first $50,000 of income.

    D. Federal and state income taxes are paid by both employees and self-employed individuals.

Correct Response: A. Payroll taxes and federal and state income taxes are based on an employee's wages. Payroll taxes are paid by both the employer and the employee. Federal payroll taxes include Social Security, Medicare, and unemployment insurance. Some state payroll taxes include unemployment insurance tax. Response **B** is incorrect because both payroll taxes and federal and state income taxes are withheld by the employer. Payroll taxes are paid by all employees regardless of how much they earn. However, Social Security is capped at an upper income level ($118,500 in 2015), so people who earn above this amount pay a smaller social security tax rate than people who earn below this amount (**C**). Response (**D**) is incorrect because self-employed individuals also pay payroll taxes.

99. Which of the following is an example of an expense that can be itemized as a deduction on an individual's federal personal income tax return?

    A. state income tax payments

    B. interest paid on a car loan

    C. Social Security tax payments

    D. interest paid on a credit card

Correct Response: A. When an individual files taxes at the end of a fiscal year, they may deduct itemized expenses that include: state and local taxes, gifts to charitable organizations, home mortgage interest, tax preparer's fee, and medical and dental expenses. Individuals are only allowed to deduct interest paid on a home mortgage, and not on personal or car loans (**B**). Individuals may deduct state and local taxes, but cannot deduct federal income taxes that are withheld, such as Social Security and Medicare taxes (**C**). The only deduction for interest on a loan is a home mortgage and not on a personal credit card (**D**).

100. A consumer would best be able to evaluate which of the following advertising claims?

   A. Ridge Line boots will last a lifetime and keep your feet warm and dry, no matter where you wander.

   B. Willie's Wheat Crunchies cereal has the nutrition moms love and the taste kids prefer.

   C. The High Gear delivers ten standard safety features and the best gas mileage of any small pick-up truck.

   D. Bahama Breeze soft drinks will give you the taste of the tropics in every bottle.

Correct Response: C. In order to evaluate an ad, the claims made in the ad should be backed by verifiable, objective evidence. Stating that the High Gear delivers ten standard safety features can be verified. It is an objective statement. It is possible to list the features of the vehicle and determine whether or not the list includes ten standard safety features. Stating that its gas mileage is the best of any small pick-up truck can also be evaluated as true or false. Ridge Line boots claim that they last a lifetime and will keep one's feet warm regardless of the condition. This would be essentially impossible to verify, since one could not test the boots under all conditions (**A**). The claim that Willie’s Wheat Crunchies has the nutrition moms love and the taste kids prefer is meant to imply that that this is true for *all* moms and kids, and as such is not an objective statement: how could one determine what kind of nutrition all moms or kids love (**B**)? A beverage advertising that the taste of the tropics is in every bottle is not a verifiable claim, since it is impossible to quantify what the taste of the tropics actually means (**D**).