

Chapter 02: Understanding the Environments of Business

Chapter 02 Multiple Choice Questions

1. In terms of organizational boundaries and environments, which is correct?
 - a. Large business firms are heavily influenced by events in the external environment, but small business firms are much less influenced.
 - b. No single firm can control the environment.
 - c. Most organizations have a single environment, but some have multiple environments they must cope with.
 - d. The major elements of the external environment are marketing, finance, production, and human resources.
 - e. The most important features of the external environment are the political and social aspects.

Difficulty: 2 **Page-Reference:** 38
Question ID: 02-1-01 **Skill:** Knowledge
Objective: 2.1
Answer : b.No single firm can control the environment.

2. Distributors who are in a grocery store restocking shelves are normally considered part of the _____ rather than the _____.
 - a. environment; culture
 - b. organization; environment
 - c. culture; store
 - d. environment; organization
 - e. none of these are correct

Difficulty: 2 **Page-Reference:** 38
Question ID: 02-1-02 **Skill:** Comprehension
Objective: 2.1
Answer : d.environment; organization

3. Which of the following is true with respect to the elements in the external environment?
 - a. The socio-cultural environment has become less important in recent years because of the increasing diversity population in Canada.
 - b. The political-legal environment is something that cannot be influenced by Canadian business firms.
 - c. The economic environment will affect the performance of almost every business.
 - d. The boundary between a company and the political-legal environment is more porous than the boundary between a company and the socio-cultural environment.
 - e. All of these are true.

Difficulty: 2 **Page-Reference:** 39
Question ID: 02-1-03 **Skill:** Comprehension
Objective: 2.1
Answer : c.The economic environment will affect the performance of almost every business.

4. How might moderate unemployment levels in the general economy affect a company like McDonald's?
 - a. Most people will be able to afford to eat out and McDonald's will be able to pay lower wages and still attract employees.
 - b. Very few people will be able to afford to eat out, but McDonald's will be able to pay workers less than minimum wage.
 - c. Few people will be able to afford to eat out and McDonald's will have to pay higher wages to attract employees.
 - d. Few people will be able to afford to eat out and McDonald's will be able to pay lower wages and still attract employees.
 - e. Most people will be able to afford to eat out, but McDonald's will have to pay higher wages to attract employees.

Difficulty: 3 **Page-Reference:** 39
Question ID: 02-1-04 **Skill:** Application
Objective: 2.2

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Answer : e. Most people will be able to afford to eat out, but McDonald's will have to pay higher wages to attract employees.

5. In recent years, the economic environment has been characterized by
- low growth, rising unemployment, and low inflation.
 - high growth, declining unemployment, and high inflation.
 - low growth, low unemployment, and low inflation.
 - high growth, high unemployment, and high inflation.
 - high growth, declining unemployment, and low inflation.

Difficulty: 3 **Page-Reference:** 39
Question ID: 02-1-05 **Skill:** Knowledge
Objective: 2.2
Answer : a. low growth, rising unemployment, and low inflation.

6. How might low inflation levels in the general economy affect a company like McDonald's?
- McDonald's will pay much higher prices for supplies and will charge customers more for its products.
 - McDonald's will pay higher prices for supplies and will charge customers more for its products.
 - McDonald's will pay relatively constant prices for supplies, but will be unable to increase the price paid by customers.
 - McDonald's will pay relatively constant prices for supplies and will charge customers more for its products.
 - McDonald's will pay higher prices for supplies, but will be unable to increase the price paid by customers.

Difficulty: 3 **Page-Reference:** 39
Question ID: 02-1-06 **Skill:** Application
Objective: 2.2
Answer : c. McDonald's will pay relatively constant prices for supplies, but will be unable to increase the price paid by customers.

7. The three key goals of the Canadian economic system are
- high interest rates, economic stability, full employment.
 - economic growth, inflation, full employment.
 - economic growth, economic stability, full employment.
 - economic growth, economic stability, low employment.
 - inflation growth, economic instability, low employment.

Difficulty: 2 **Page-Reference:** 39
Question ID: 02-1-07 **Skill:** Knowledge
Objective: 2.2
Answer : c. economic growth, economic stability, full employment.

8. Agriculture efficiency has resulted in
- Canadians contributing more resources to farms.
 - an increase in the number of people employed in the industry.
 - Canadians needing more farms.
 - a decrease in the number of people employed in the industry.
 - none of these.

Difficulty: 2 **Page-Reference:** 39
Question ID: 02-1-08 **Skill:** Application
Objective: 2.2
Answer : d. a decrease in the number of people employed in the industry.

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9. Which of the following best defines the term *business cycle*?
- The conditions of the economic system in which an organization operates
 - The pattern of short-term ups and downs in an economy
 - The total quantity of goods and services produced by an economic system during a given period
 - The measure of economic growth that compares how much a system produces with the resources needed to produce it
 - The total quantity and quality of goods and services that a country's citizens can purchase with the currency used in their economic system

Difficulty: 2 **Page-Reference:** 40
Question ID: 02-1-09 **Skill:** Knowledge
Objective: 2.2
Answer : b.The pattern of short-term ups and downs in an economy

10. Sales had been low at Stephen's Home Office Supplies for several months, but then business started picking up again. Stephen's business probably went through which two phases of the business cycle?
- Recession and trough
 - Peak and recession
 - Trough and recovery
 - Recovery and peak
 - Any of these answers could be correct

Difficulty: 2 **Page-Reference:** 40
Question ID: 02-1-10 **Skill:** Comprehension
Objective: 2.2
Answer : c.Trough and recovery

11. Which of the following would *not* likely be a consequence of a recession?
- Aggregate output declines
 - Producers will hire more employees
 - Unemployment will increase
 - Less labour will be needed to produce products
 - GDP will decrease

Difficulty: 2 **Page-Reference:** 40
Question ID: 02-1-11 **Skill:** Comprehension
Objective: 2.2
Answer : b.Producers will hire more employees

12. The pattern of short-term ups and downs in the economy is known as
- a recession.
 - the business cycle.
 - aggregate output.
 - gross domestic product.
 - economic growth.

Difficulty: 1 **Page-Reference:** 40
Question ID: 02-1-12 **Skill:** Knowledge
Objective: 2.2
Answer : b.the business cycle.

13. Which statement is true with regard to the standard of living?
- It is dependent on the size of the city in which one lives.
 - It is comparable for every citizen in every country.
 - It is the amount and quality of goods and services that people can buy with their money.
 - It is improved when high-end stores stock expensive merchandise.
 - It is unaffected by business productivity.

Difficulty: 2 **Page-Reference:** 41
Question ID: 02-1-13 **Skill:** Application

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Objective: 2.2

Answer : c.It is the amount and quality of goods and services that people can buy with their money.

14. The main measure of growth in an economic system is

- a. the business cycle.
- b. standard of living.
- c. gross national product.
- d. gross domestic product.
- e. aggregate output.

Difficulty: 1

Page-Reference: 41-42

Question ID: 02-1-14

Skill: Knowledge

Objective: 2.2

Answer : e.aggregate output.

15. Which of the following best describes the term *standard of living*?

- a. Total quantity of goods and services produced by an economic system
- b. Total value of all goods and services produced by a national economy within a given period, regardless of where the factors of production are located
- c. Total value of all goods and services produced within a given period by a national economy through domestic factors of production
- d. Conditions of the economic system in which an organization operates
- e. Total quantity and quality of goods and services that a country's citizens can purchase with the currency used in their economic system

Difficulty: 2

Page-Reference: 41

Question ID: 02-1-15

Skill: Comprehension

Objective: 2.2

Answer : e.Total quantity and quality of goods and services that a country's citizens can purchase with the currency used in their economic system

16. Which of the following best describes *real GDP*?

- a. Total quantity and quality of goods and services that a country's citizens can purchase with the currency used in their economic system
- b. Total quantity of goods and services produced by an economic system
- c. Total value of all goods and services produced within a given period by a national economy through domestic and international factors of production
- d. Total value of all goods and services produced within a given period by a national economy, through domestic factors of production measured in current dollars, or with all components valued at current prices
- e. Total value of all goods and services produced by a national economy within a given period, calculated to account for changes in currency values and price changes

Difficulty: 3

Page-Reference: 43

Question ID: 02-1-16

Skill: Comprehension

Objective: 2.2

Answer : e.Total value of all goods and services produced by a national economy within a given period, calculated to account for changes in currency values and price changes

17. Which of the following best describes the term *gross domestic product*?

- a. Total quantity and quality of goods and services that a country's citizens can purchase with the currency used in their economic system
- b. Conditions of the economic system in which an organization operates
- c. Total value of all goods and services produced within a given period by a national economy through domestic factors of production
- d. Total value of all goods and services produced by a national economy within a given period regardless of where factors of production are located
- e. Total quantity of goods and services produced by an economic system

Difficulty: 2

Page-Reference: 41

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Question ID: 02-1-17 **Skill:** Comprehension
Objective: 2.2
Answer : c.Total value of all goods and services produced within a given period by a national economy through domestic factors of production

18. Which of the following best describes the term *gross national product*?
- Total quantity of goods and services produced by an economic system
 - Total value of all goods and services produced by a national economy within a given period regardless of where the factors of production are located
 - Total value of all goods and services produced within a given period by a national economy through domestic factors of production
 - Total quantity and quality of goods and services that a country's citizens can purchase with the currency used in their economic system
 - Conditions of the economic system in which an organization operates

Difficulty: 2 **Page-Reference:** 42
Question ID: 02-1-18 **Skill:** Comprehension
Objective: 2.2
Answer : b.Total value of all goods and services produced by a national economy within a given period regardless of where the factors of production are located

19. Which of the following would be *included* in the gross national product of Canada?
- The wages paid to Peruvian workers producing coffee for a Brazilian company
 - The profits earned by a Canadian-owned automobile plant in Brazil
 - The profits earned by a Brazilian coffee company operating in Canada
 - The profits earned by a Brazilian coffee company operating in Peru
 - The wages paid to Brazilian workers producing coffee for sale in Canada

Difficulty: 3 **Page-Reference:** 42
Question ID: 02-1-19 **Skill:** Application
Objective: 2.2
Answer : b.The profits earned by a Canadian-owned automobile plant in Brazil

20. Which of the following would be *included* in the gross national product of Brazil?
- The profits earned by a Brazilian coffee company operating in Canada
 - The wages paid to Peruvian workers producing coffee for a Canadian company
 - The profits earned by a Canadian coffee company operating in Peru
 - The profits earned by a Canadian-owned automobile plant in Brazil
 - The wages paid to Peruvian workers producing coffee for sale in Canada

Difficulty: 3 **Page-Reference:** 42
Question ID: 02-1-20 **Skill:** Application
Objective: 2.2
Answer : a.The profits earned by a Brazilian coffee company operating in Canada

21. Which of the following would be *included* in the gross domestic product of Canada?
- The profits earned by a Brazilian coffee company operating in Canada
 - The wages paid to Peruvian workers producing coffee for a Canadian company
 - The profits earned by a Brazilian coffee company operating in Peru
 - The wages paid to Brazilian workers producing coffee for sale in Canada
 - The profits earned by a Canadian-owned automobile plant in Brazil

Difficulty: 3 **Page-Reference:** 42
Question ID: 02-1-21 **Skill:** Application
Objective: 2.2
Answer : a.The profits earned by a Brazilian coffee company operating in Canada

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22. Which of the following best defines the term *aggregate output*?

- a. The total quantity and quality of goods and services that a country's citizens can purchase with the currency of their economic system
- b. The measure of economic growth that compares how much a system produces with the resources needed to produce it
- c. The pattern of short-term ups and downs in an economy
- d. The total quantity of goods and services produced by an economic system during a given period
- e. The conditions of the economic system in which an organization operates

Difficulty: 2

Page-Reference: 41

Question ID: 02-1-22

Skill: Application

Objective: 2.2

Answer : d. The total quantity of goods and services produced by an economic system during a given period

23. Canada's GDP in 2010 was about

- a. \$575 billion.
- b. \$1 trillion.
- c. \$1.6 trillion.
- d. \$2.7 trillion.
- e. \$8.7 trillion.

Difficulty: 2

Page-Reference: 41

Question ID: 02-1-23

Skill: Knowledge

Objective: 2.2

Answer : c. \$1.6 trillion.

24. Which country has the highest GDP per capita?

- a. United States
- b. Singapore
- c. Luxembourg
- d. Canada
- e. Japan

Difficulty: 2

Page-Reference: 43

Question ID: 02-1-24

Skill: Knowledge

Objective: 2.2

Answer : c. Luxembourg

25. Peter is a Canadian citizen who owns a manufacturing plant located in Brazil. The profits earned by his company will be reflected in _____ in Canada.

- a. productivity
- b. GDP
- c. GNP
- d. balance of trade
- e. GPI

Difficulty: 3

Page-Reference: 42

Question ID: 02-1-25

Skill: Comprehension

Objective: 2.2

Answer : c. GNP

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26. Paul owns a Canadian shipping company that generates profits as a result of business activities in Brazil. These profits are included in ____ in Brazil.
- GDP
 - national employment
 - productivity
 - GNP
 - GPI

Difficulty: 3 **Page-Reference:** 42
Question ID: 02-1-26 **Skill:** Comprehension
Objective: 2.2
Answer : a.GDP

27. The total value of all goods and services produced by a country in a 12-month period regardless of where the factors of production are located is known as
- Net National Product.
 - Net National Income.
 - Net National Profit.
 - Gross National Product.
 - Gross Domestic Product.

Difficulty: 1 **Page-Reference:** 42
Question ID: 02-1-27 **Skill:** Knowledge
Objective: 2.2
Answer : d.Gross National Product.

28. Canada's GDP per capita is approximately
- \$15,000.
 - \$35,000.
 - \$38,000.
 - \$46,000.
 - \$56,000.

Difficulty: 2 **Page-Reference:** 43
Question ID: 02-1-28 **Skill:** Knowledge
Objective: 2.2
Answer : d.\$46,000.

29. Which of the following statements is correct?
- GNP refers to the total value of all goods and services produced by a national economy.
 - GDP refers to the total value of all goods and services produced by a national economy regardless of where factors of production are located.
 - Growth depends on output increasing at a faster rate than population.
 - Per capita GDP is calculated by dividing purchasing power parity by the rate of inflation.
 - Real GDP compares how much a system produces with the resources needed to produce it.

Difficulty: 3 **Page-Reference:** 42
Question ID: 02-1-29 **Skill:** Comprehension
Objective: 2.2
Answer : c.Growth depends on output increasing at a faster rate than population.

30. The principle of _____ states that exchange rates are set so that the prices of similar products in different countries are about the same.
- nominal GDP
 - gross national product
 - consumer price index
 - equal prices
 - purchasing power parity

Difficulty: 1 **Page-Reference:** 43

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Question ID: 02-1-30 **Skill:** Knowledge
Objective: 2.2
Answer : e.purchasing power parity

31. Which of the following is correct regarding purchasing power parity?
- It gives us a better idea of what people can actually buy with the financial resources they have.
 - It reflects the principle that exchange rates are set so that prices of similar products in different countries are unequal.
 - It does not really give a good sense of the standards of living around the world.
 - It reflects the principle that capitalism is a better system than communism.
 - None of these statements are accurate.

Difficulty: 2 **Page-Reference:** 43
Question ID: 02-1-31 **Skill:** Comprehension
Objective: 2.2
Answer : a.It gives us a better idea of what people can actually buy with the financial resources they have.

32. Purchasing power parity gives us a good idea of
- what people are buying outside their own country while on vacation or while doing international business.
 - what people can actually buy with the financial resources allocated to them by their economic system.
 - what people would like to buy with the financial resources in their economic system.
 - purchasing trends across the globe.
 - average annual income.

Difficulty: 2 **Page-Reference:** 43
Question ID: 02-1-32 **Skill:** Comprehension
Objective: 2.2
Answer : b.what people can actually buy with the financial resources allocated to them by their economic system.

33. Productivity is
- a measure of economic growth that compares how much a system produces with the resources needed to produce it.
 - also known as "real gross national product."
 - the total value of all goods and services produced by a national economy in a given period of time regardless where the factors of production are located.
 - the total value of all the goods produced by a single economy.
 - the total quantity and quality of goods and services that can be purchased with the currency used in an economic system.

Difficulty: 2 **Page-Reference:** 43
Question ID: 02-1-33 **Skill:** Knowledge
Objective: 2.2
Answer : a.a measure of economic growth that compares how much a system produces with the resources needed to produce it.

34. If, on average, it takes one Canadian worker and one Canadian dollar to make 10 soccer balls in an 8-hour work day, we can measure Canada's _____.
- balance of trade
 - GDP
 - productivity
 - GNP
 - GNP and productivity

Difficulty: 1 **Page-Reference:** 43
Question ID: 02-1-34 **Skill:** Comprehension
Objective: 2.2

Answer : c.productivity

35. Which two nations are the most productive in the world?

- a. United States and Canada
- b. Luxembourg and Norway
- c. Singapore and Iceland
- d. Japan and China
- e. China and Canada

Difficulty: 2

Page-Reference: 43

Question ID: 02-1-35

Skill: Knowledge

Objective: 2.2

Answer : b.Luxembourg and Norway

36. The comparison of what an economic system produces with the resources used to produce it is known as

- a. the resource ratio.
- b. real GDP.
- c. purchasing power parity.
- d. the balance of trade.
- e. productivity.

Difficulty: 1

Page-Reference: 43

Question ID: 02-1-36

Skill: Knowledge

Objective: 2.2

Answer : e.productivity.

37. A _____ balance of trade results when a country imports more than it exports.

- a. nominal
- b. depressed
- c. positive
- d. negative
- e. beneficial

Difficulty: 1

Page-Reference: 44

Question ID: 02-1-37

Skill: Knowledge

Objective: 2.2

Answer : d.negative

38. The difference between a country's exports and its imports is known as its

- a. balance of trade.
- b. national debt.
- c. net national income.
- d. balance of payments.
- e. net national profit.

Difficulty: 1

Page-Reference: 43

Question ID: 02-1-38

Skill: Knowledge

Objective: 2.2

Answer : a.balance of trade.

39. Because Canada's exports _____ its imports, Canada has a _____ trade balance.

- a. are greater than; negative balance of trade
- b. are less than; negative balance of trade
- c. are greater than; positive balance of trade
- d. are less than; positive balance of trade
- e. none of the above

Difficulty: 2

Page-Reference: 43-44

Question ID: 02-1-39

Skill: Comprehension

Objective: 2.2

Answer : c.are greater than; positive balance of trade

40. A _____ balance of trade results when a country exports more than it imports.
- depressed
 - negative
 - real
 - nominal
 - positive

Difficulty: 1

Page-Reference: 43-44

Question ID: 02-1-40

Skill: Knowledge

Objective: 2.2

Answer : e.positive

41. Which of the following is the *best* description of the balance of trade?
- The total of a nation's revenues from income taxes minus its expenditures on goods and services
 - Changes in currency values and price changes
 - The profitability of business firms that are exporting goods and services
 - The total of a nation's exports minus its imports
 - The total value of all services provided to foreigners during a one-year time period

Difficulty: 2

Page-Reference: 43

Question ID: 02-1-41

Skill: Comprehension

Objective: 2.2

Answer : d.The total of a nation's exports minus its imports

42. Canada usually has a _____ balance of trade. It is therefore a _____ nation rather than a _____ nation.
- positive; creditor; debtor
 - negative; debtor; creditor
 - positive; debtor; creditor
 - negative; creditor; debtor
 - none of the above

Difficulty: 3

Page-Reference: 43

Question ID: 02-1-42

Skill: Comprehension

Objective: 2.2

Answer : a.positive; creditor; debtor

43. Taiwan has a positive balance of trade. This means that
- money is flowing into the country to pay for imported goods.
 - the total amount of exported goods has increased from the previous year.
 - the total amount of imported goods has decreased from the previous year.
 - the nation is exporting more than it imports from other nations.
 - all of these are correct.

Difficulty: 2

Page-Reference: 43-44

Question ID: 02-1-43

Skill: Comprehension

Objective: 2.2

Answer : d.the nation is exporting more than it imports from other nations.

44. The national debt refers to
- the total amount of money that Canada owes to its creditors.
 - the ratio of Canada's exports to its imports.
 - the result of government spending more in a year than the value of GDP.
 - the excess amount of taxes over what the government spends in one year.
 - the amount of taxes the government collects in one year.

Difficulty: 1

Page-Reference: 44

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Question ID: 02-1-44 **Skill:** Knowledge
Objective: 2.2
Answer : a.the total amount of money that Canada owes to its creditors.

45. Which of the following is correct with regard to budget deficits and the national debt?
- A country's national debt is the amount of money its government owes the United States.
 - A budget deficit occurs when income tax revenue is less than interest payments on the national debt.
 - Canada is the only industrialized country in the world that has a budget surplus.
 - Until recently, Canada was the only industrialized country that had an annual budget surplus.
 - All of these statements are correct.

Difficulty: 3 **Page-Reference:** 44
Question ID: 02-1-45 **Skill:** Comprehension
Objective: 2.2
Answer : d.Until recently, Canada was the only industrialized country that had an annual budget surplus.

46. With regard to the concepts of budget deficits and the national debt, it is correct to say that
- these two concepts are essentially identical.
 - budget deficits are measured on an annual basis, while the national debt is cumulative over a span of years.
 - Canada is the only major industrialized country that has a budget surplus each year.
 - budget deficits measure the amount of money that Canada owes its foreign investors.
 - budget deficits are more important than the national debt.

Difficulty: 3 **Page-Reference:** 44
Question ID: 02-1-46 **Skill:** Comprehension
Objective: 2.2
Answer : b.budget deficits are measured on an annual basis, while the national debt is cumulative over a span of years.

47. From Confederation (1867) to 1981, Canada's total accumulated debt was only _____, but in the period 1981-1994, *annual* deficits were in the _____ range.
- \$78.5 billion; \$10 to \$20 billion
 - \$57.8 billion; \$100 to \$125 billion
 - \$40 billion; \$20 to \$40 billion
 - \$85.7 billion; \$20 to \$40 billion
 - none of these numbers are correct

Difficulty: 3 **Page-Reference:** 44
Question ID: 02-1-47 **Skill:** Knowledge
Objective: 2.2
Answer : d.\$85.7 billion; \$20 to \$40 billion

48. The more money the Canadian government borrows (by issuing savings bonds), the _____ money is available for private borrowing and investment that increases _____.
- more; productivity
 - less; productivity
 - more; purchasing power parity
 - less; GDP
 - more; GDP

Difficulty: 3 **Page-Reference:** 44
Question ID: 02-1-48 **Skill:** Comprehension
Objective: 2.2
Answer : b.less; productivity

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49. A budget deficit refers to
- the measure of economic growth that compares how much a system produces with the resources needed to produce it.
 - government spending more in one year than it takes in during that year.
 - the total of a country's exports minus its imports.
 - the total amount of money that Canada owes its creditors.
 - the exchange rate that is set so prices of similar products in different countries are the same.

Difficulty: 2 **Page-Reference:** 44
Question ID: 02-1-49 **Skill:** Knowledge
Objective: 2.2
Answer : b.government spending more in one year than it takes in during that year.

50. What are three factors that threaten stability?
- Purchasing power parity, productivity, and inflation
 - Productivity, inflation, and deflation
 - Purchasing power parity, inflation, and deflation
 - Inflation, deflation, and unemployment
 - Productivity, unemployment, and inflation

Difficulty: 2 **Page-Reference:** 45
Question ID: 02-1-50 **Skill:** Knowledge
Objective: 2.2
Answer : d.Inflation, deflation, and unemployment

51. Which of the following statements about inflation is correct?
- Inflation increases the purchasing power of consumer dollars.
 - The consumer price index is one way to measure inflation.
 - Inflation occurs when people have more money to spend as the quantity of goods available increases.
 - Inflation occurs when the amount of money taken out of the economy exceeds the amount of money put into the economy.
 - Inflation and deflation are really almost synonymous in practice.

Difficulty: 3 **Page-Reference:** 45
Question ID: 02-1-51 **Skill:** Knowledge
Objective: 2.2
Answer : b.The consumer price index is one way to measure inflation.

52. The _____ is a measure of the prices of a typical "basket of products" purchased by consumers.
- consumer price index
 - national debt
 - balance of trade
 - gross national product
 - real GDP

Difficulty: 1 **Page-Reference:** 46
Question ID: 02-1-52 **Skill:** Knowledge
Objective: 2.2
Answer : a.consumer price index

53. With respect to inflation and deflation, which is correct?
- Inflation is caused when consumers buy too many luxury goods.
 - When inflation occurs, people have more money to spend, and there will be an increased quantity of goods for sale.
 - When inflation occurs, purchasing power decreases.
 - Deflation is evident when the amount of money injected into the economic system increases faster than actual output.
 - All of these statements are correct.

Difficulty: 3 **Page-Reference:** 45-46
Question ID: 02-1-53 **Skill:** Comprehension

Objective: 2.2

Answer : c.When inflation occurs, purchasing power decreases.

54. Assume that Statistics Canada reports that inflation is becoming a problem. What should the government do in order to reduce inflation?

- a. Lower taxes.
- b. Raise taxes.
- c. Increase government spending.
- d. Encourage consumers to increase spending.
- e. The government should increase spending and lower taxes.

Difficulty: 3

Page-Reference: 48

Question ID: 02-1-54

Skill: Application

Objective: 2.2

Answer : b.Raise taxes.

55. The economy in Palau has been stagnant for some time. The national bank thinks that increasing the money supply will encourage investment within the country, but some economists oppose this idea, arguing that it will cause inflation. Which of the following would support the argument that increasing the money supply will cause inflation?

- a. Jobs will be created.
- b. Banks will lower interest rates.
- c. Wages will decrease.
- d. Foreign investment will be discouraged.
- e. Only low-technology sectors will benefit.

Difficulty: 3

Page-Reference: 48

Question ID: 02-1-55

Skill: Analysis

Objective: 2.2

Answer : b.Banks will lower interest rates.

56. The consumer price index

- a. measures inflation by measuring price increases.
- b. measures price increases but not changes in consumer purchasing patterns.
- c. is not able to measure deflation.
- d. continues to include the same items in the typical "basket of goods" so that price increases in previous years compared to price increases in the current year.
- e. is no longer accepted as a good measure of price increases.

Difficulty: 3

Page-Reference: 46

Question ID: 02-1-56

Skill: Comprehension

Objective: 2.2

Answer : a.measures inflation by measuring price increases.

57. Deflation

- a. is a period of stagnant prices.
- b. results when the Bank of Canada lowers interest rates.
- c. may occur when prices fall as a result of increased industrial productivity.
- d. cannot happen in a modern industrialized economy.
- e. is always bad because it means that the economy is not doing well.

Difficulty: 3

Page-Reference: 46

Question ID: 02-1-57

Skill: Knowledge

Objective: 2.2

Answer : c.may occur when prices fall as a result of increased industrial productivity.

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58. John is experiencing _____ unemployment because he is out of work temporarily while looking for a new job, while Sally is experiencing _____ unemployment because she is out work because of a downturn in the business cycle.
- seasonal; structural
 - structural; seasonal
 - frictional; cyclical
 - cyclical; frictional
 - seasonal; cyclical

Difficulty: 3**Page-Reference:** 47**Question ID:** 02-1-58**Skill:** Comprehension**Objective:** 2.2**Answer :** c.frictional; cyclical

59. Ben is unemployed, but he is currently in a training program designed to increase the skills he needs to perform the kinds of jobs that are available. Ben is experiencing _____ unemployment.
- frictional
 - seasonal
 - cyclical
 - structural
 - none of these

Difficulty: 2**Page-Reference:** 47**Question ID:** 02-1-59**Skill:** Comprehension**Objective:** 2.2**Answer :** d.structural

60. A computer programmer who has just quit her job, but who will find a new one soon, is an example of _____ unemployment.
- seasonal
 - frictional
 - cyclical
 - structural
 - none of these

Difficulty: 2**Page-Reference:** 47**Question ID:** 02-1-60**Skill:** Comprehension**Objective:** 2.2**Answer :** b.frictional

61. Sam, an audiologist, lost his job two years ago and still hasn't found work because there is just no market for audiologists at this time. Sam is experiencing _____
- structural unemployment.
 - full unemployment.
 - cyclical unemployment.
 - bad luck.
 - frictional unemployment.

Difficulty: 2**Page-Reference:** 47**Question ID:** 02-1-61**Skill:** Comprehension**Objective:** 2.2**Answer :** a.structural unemployment.

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62. Unemployment is the level of joblessness among
- people over the age of 18 within a given economic system.
 - people who have been previously employed in an economic system.
 - people who have the skills for employment within an economic system.
 - people over the age of 18 and under the age of 65 in a given economic system.
 - people actively seeking work in an economic system.

Difficulty: 2**Page-Reference:** 47**Question ID:** 02-1-62**Skill:** Knowledge**Objective:** 2.2**Answer :** e.people actively seeking work in an economic system.

63. Don is unemployed because of a downturn in economic activity; this is an example of _____ unemployment.
- frictional
 - seasonal
 - structural
 - cyclical
 - none of these

Difficulty: 2**Page-Reference:** 47**Question ID:** 02-1-63**Skill:** Comprehension**Objective:** 2.2**Answer :** d.cyclical

64. Which of the following is correct regarding unemployment rates in Canada?
- Unemployment rates have been fairly stable at about 6 percent for the last 30 years.
 - Unemployment rates have been fairly stable at about 2 percent for the last 30 years.
 - Unemployment rates for women have been slightly lower than unemployment rates for men during the last 10 years.
 - The government did not keep track of unemployment rates for women until the 1980s.
 - The unemployment rate for women is about half the unemployment rate for men.

Difficulty: 3**Page-Reference:** 47**Question ID:** 02-1-64**Skill:** Knowledge**Objective:** 2.2**Answer :** c.Unemployment rates for women have been slightly lower than unemployment rates for men during the last 10 years.

65. _____ policy involves the collection and spending of government revenues, while _____ policy focuses on controlling the size of the nation's money supply.
- productivity; inflation
 - taxation policy; monetary policy
 - monetary policy; fiscal policy
 - fiscal policy; monetary policy
 - national debt; annual deficit

Difficulty: 3**Page-Reference:** 48**Question ID:** 02-1-65**Skill:** Knowledge**Objective:** 2.2**Answer :** d.fiscal policy; monetary policy

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66. Higher interest rates tend to lead to _____ consumer and business spending, while lower interest rates tend to lead to _____ spending by consumers and businesses.
- higher; lower
 - lower; lower
 - higher; higher
 - lower; higher
 - it is not possible to tell from the information given

Difficulty: 2 **Page-Reference:** 48
Question ID: 02-1-66 **Skill:** Comprehension
Objective: 2.2
Answer : d.lower; higher

67. Suppose the Canadian dollar rose from (US)\$0.90 to (US)\$0.95. Exports of Canadian goods would then be likely to _____, and the Bank of Canada would likely _____ interest rates.
- decrease; raise
 - increase; raise
 - decrease; lower
 - increase; lower
 - it is not possible to tell from the information given

Difficulty: 3 **Page-Reference:** 48
Question ID: 02-1-67 **Skill:** Application
Objective: 2.2
Answer : c.decrease; lower

68. What effect do higher interest rates have on consumer spending?
- Consumer spending increases as people try to quickly buy goods before rates go even higher.
 - Consumer spending decreases immediately, but then rises sharply after consumers get used to the new high interest rates.
 - Consumer spending is not impacted by changes in interest rates.
 - Consumer spending decreases.
 - It is not possible to tell from the information given.

Difficulty: 1 **Page-Reference:** 48
Question ID: 02-1-68 **Skill:** Comprehension
Objective: 2.2
Answer : d.Consumer spending decreases.

69. _____ refers to all the ways firms create value for their constituents.
- Marketing
 - Outsourcing
 - Processing
 - Production
 - Technology

Difficulty: 2 **Page-Reference:** 49
Question ID: 02-1-69 **Skill:** Knowledge
Objective: 2.3
Answer : e.Technology

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70. The advent of the iPod saw an increase in the downloading of music from the internet. Music artists are noticing a decrease in the sales of their CDs, which is an effect of which dimension of the external environment?

- a. Technological
- b. Economic
- c. Socio-cultural
- d. Political
- e. Global

Difficulty: 2

Page-Reference: 48

Question ID: 02-1-70

Skill: Comprehension

Objective: 2.3

Answer : a.Technological

71. Technology includes

- a. human knowledge.
- b. work methods.
- c. equipment.
- d. electronics and telecommunications.
- e. all of these.

Difficulty: 2

Page-Reference: 49

Question ID: 02-1-71

Skill: Knowledge

Objective: 2.3

Answer : e.all of these.

72. _____ includes human knowledge, work methods, physical equipment, electronics and telecommunications, and various processing systems that are used in performing business activities.

- a. The technological environment
- b. The social environment
- c. The political-legal environment
- d. The competitive environment
- e. The economic environment

Difficulty: 1

Page-Reference: 49

Question ID: 02-1-72

Skill: Knowledge

Objective: 2.3

Answer : a.The technological environment

73. Research and development (R&D) includes activities that are necessary to provide new products, services, and processes. Two types of R&D include

- a. deflationary and inflationary.
- b. public and economical.
- c. college and university.
- d. pure and theoretical.
- e. basic and applied.

Difficulty: 2

Page-Reference: 49

Question ID: 02-1-73

Skill: Knowledge

Objective: 2.3

Answer : e.basic and applied.

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74. Basic research and development describes
- focusing specifically on how a technological innovation can be put to use in the making of a product or service that can be sold in the marketplace.
 - those activities that do not create value for the firm.
 - the process involved in getting a new technology out of the lab and into the marketplace.
 - improving knowledge in an area without a primary focus on whether any discoveries that might occur are immediately marketable.
 - those activities that increase a company's revenues.

Difficulty: 2 **Page-Reference:** 49
Question ID: 02-1-74 **Skill:** Comprehension
Objective: 2.3

Answer : d.improving knowledge in an area without a primary focus on whether any discoveries that might occur are immediately marketable.

75. R&D spending in Canada in 2010 totalled about _____ billion.
- \$2
 - \$6
 - \$10
 - \$15
 - \$22

Difficulty: 2 **Page-Reference:** 49
Question ID: 02-1-75 **Skill:** Knowledge
Objective: 2.3
Answer : d.\$15

76. In 2010, the Canadian private sector accounted for about _____ percent of R&D spending, while the government accounted for about _____percent.
- 25; 10
 - 10; 40
 - 55; 10
 - 25; 30
 - 78; 2

Difficulty: 3 **Page-Reference:** 49
Question ID: 02-1-76 **Skill:** Knowledge
Objective: 2.3
Answer : c.55; 10

77. In 2010, Canadian universities accounted for about _____ percent of R&D spending.
- 15
 - 25
 - 34
 - 45
 - 55

Difficulty: 3 **Page-Reference:** 49
Question ID: 02-1-77 **Skill:** Knowledge
Objective: 2.3
Answer : c.34

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78. Which of the following is correct with respect to R&D?
- R&D focuses on physical products, not services.
 - Pure, or basic, R&D involves focusing specifically on how a technological innovation can be put to use to make products that can be sold in the marketplace.
 - Applied R&D involves improving knowledge in an area without regard to how it might be useful in the marketplace.
 - R&D intensity refers to R&D spending as a percentage of a company's sales revenues.
 - All of these statements are correct.

Difficulty: 3

Page-Reference: 49

Question ID: 02-1-78

Skill: Comprehension

Objective: 2.3

Answer : d.R&D intensity refers to R&D spending as a percentage of a company's sales revenues.

79. R&D spending in Canada is about ____ percent of GDP, while in countries like the U.S. and Japan, the figure is about ____ percent of GDP.
- less than 1 percent; 1.5-2.0 percent
 - 2 percent; 1 percent
 - 3 percent; 6 percent
 - 5 percent; 5 percent
 - 10 percent; 15 percent

Difficulty: 3

Page-Reference: 49

Question ID: 02-1-79

Skill: Knowledge

Objective: 2.3

Answer : a.less than 1 percent; 1.5-2.0 percent

80. _____ is the time (from beginning to end) that it takes a firm to accomplish some recurring activity or function.
- Vertical integration
 - Processing time
 - Downtime
 - Span of control
 - Cycle time

Difficulty: 3

Page-Reference: 51

Question ID: 02-1-80

Skill: Knowledge

Objective: 2.3

Answer : e.Cycle time

81. _____ is a large-scale information system for organizing and managing a firm's processes across product line, departments, and geographic locations.
- Outsourcing
 - Viral marketing
 - Vertical integration
 - Business process management
 - Enterprise resource planning

Difficulty: 1

Page-Reference: 52

Question ID: 02-1-81

Skill: Knowledge

Objective: 2.3

Answer : e.Enterprise resource planning

82. A(n) _____ system integrates back-office and front-office processes.
- viral marketing
 - outsourcing
 - application process management
 - vertical integration
 - enterprise resource planning

Difficulty: 2

Page-Reference: 52

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Question ID: 02-1-82 **Skill:** Knowledge
Objective: 2.3
Answer : e. enterprise resource planning

83. _____ systems integrate human resource, data analysis, sales and marketing, customer service, supply chain, accounting and finance, and manufacturing systems.
- Enterprise resource planning
 - Vertical integration
 - Decision support
 - Expert
 - Organizational integration

Difficulty: 2 **Page-Reference:** 52
Question ID: 02-1-83 **Skill:** Knowledge
Objective: 2.3
Answer : a. Enterprise resource planning

84. The political-legal environment describes
- the relationship between business and government.
 - the customs, values, attitudes, and demographic characteristics of the society in which an organization functions.
 - the intensity of the competition in an industry.
 - the relationship between international and domestic corporations.
 - the relationship between government and unions.

Difficulty: 2 **Page-Reference:** 54
Question ID: 02-1-84 **Skill:** Comprehension
Objective: 2.4
Answer : a. the relationship between business and government.

85. The Canadian government has so far blocked bank mergers because
- shareholders oppose the idea.
 - there is fear that competition would be reduced and customers would be harmed.
 - the Prime Minister does not like any mergers.
 - the banks are not yet profitable enough to merge.
 - none of the statements are accurate.

Difficulty: 2 **Page-Reference:** 54
Question ID: 02-1-85 **Skill:** Comprehension
Objective: 2.4
Answer : b. there is fear that competition would be reduced and customers would be harmed.

86. The socio-cultural environment describes
- the relationship between government and unions.
 - the relationship between business and government.
 - the relationship between international and domestic corporations.
 - the customs, values, attitudes, and demographic characteristics of the society in which an organization functions.
 - the intensity of the competition in an industry.

Difficulty: 2 **Page-Reference:** 56
Question ID: 02-1-86 **Skill:** Comprehension
Objective: 2.5
Answer : d. the customs, values, attitudes, and demographic characteristics of the society in which an organization functions.

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87. Which of the following is *not* an example of a factor in the socio-cultural environment?
- Prepackaged chili is more popular in southwestern U.S. states than in the U.S. northeast.
 - Consumers in China perceive bicycles primarily as a mode of transportation, while consumers in Canada perceive bicycles as recreational items.
 - Companies are more likely to set up foreign operations in countries with stable political and economic systems.
 - McDonald's has added salads and other low-fat foods to its menu.
 - Many people in the Middle East are unwilling to work in food service operations.

Difficulty: 3

Page-Reference: 56

Question ID: 02-1-87

Skill: Comprehension

Objective: 2.5

Answer : c. Companies are more likely to set up foreign operations in countries with stable political and economic systems.

88. Ethical conduct and social responsibility are critical elements of which environment?

- Global
- Political-legal
- Industry
- Socio-cultural
- Economic

Difficulty: 2

Page-Reference: 56

Question ID: 02-1-88

Skill: Comprehension

Objective: 2.5

Answer : d. Socio-cultural

89. If casinos notice an increase in business due to the fact that many people no longer regard gambling as wrong, this demonstrates a change in the _____ dimension of the external environment.

- socio-cultural
- technological
- global
- political-legal
- economic

Difficulty: 2

Page-Reference: 56-57

Question ID: 02-1-89

Skill: Comprehension

Objective: 2.5

Answer : a. socio-cultural

90. The major cigarette companies have been experiencing a decline in sales due to the overall decrease in smoking across Canada in recent years. These companies are being affected by which dimension of their external environment?

- Technological
- Global
- Business
- Socio-cultural
- Economic

Difficulty: 2

Page-Reference: 56-57

Question ID: 02-1-90

Skill: Comprehension

Objective: 2.5

Answer : d. Socio-cultural

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91. Which of the following is correct with respect to Porter's Five Forces model?
- Rivalry among existing firms is the most important element in the model.
 - When there are many substitute products available, the industry is less competitive.
 - When there are only a few suppliers in an industry, buyers have less power.
 - When substitute products are available, suppliers have more power.
 - All of these statements are correct.

Difficulty: 2

Page-Reference: 59

Question ID: 02-1-91

Skill: Comprehension

Objective: 2.5

Answer : c. When there are only a few suppliers in an industry, buyers have less power.

92. Which of the factors in Porter's five forces model is generally seen as most important?
- Threat of potential entrants
 - Rivalry among existing competitors
 - Threat of substitutes
 - Suppliers
 - None of these

Difficulty: 2

Page-Reference: 58-60

Question ID: 02-1-92

Skill: Knowledge

Objective: 2.6

Answer : e. None of these

93. When Microsoft introduced Encarta, it caused the sale of hard copy encyclopedias sold by Encyclopedia Britannica to drop sharply. This is an example of which of Porter's five forces?
- Rivalry among existing competitors
 - Threat of potential entrants
 - Suppliers
 - Buyers
 - Substitutes

Difficulty: 2

Page-Reference: 58

Question ID: 02-1-93

Skill: Comprehension

Objective: 2.6

Answer : b. Threat of potential entrants

94. Porter's five forces model includes all of the following *except*
- substitutes.
 - threat of potential entrants.
 - buyers.
 - suppliers.
 - threat of replacement products.

Difficulty: 1

Page-Reference: 58-60

Question ID: 02-1-94

Skill: Knowledge

Objective: 2.6

Answer : e. threat of replacement products.

95. Most successful firms are getting leaner by focusing on their _____, which are the skills and resources with which they compete best and create the most value for owners.
- viral marketing
 - core competencies
 - processes
 - business process management
 - political-legal environment

Difficulty: 1

Page-Reference: 60

Question ID: 02-1-95

Skill: Knowledge

Objective: 2.6

Answer : b.core competencies

96. Which of the following is the best definition of *outsourcing*?
- Any activity that adds value to some input by transforming it into an output for an internal or external customer
 - An approach by which firms move away from department-oriented organization and toward process-oriented structures that cut across old departmental boundaries
 - The strategy of paying suppliers and distributors to perform certain business processes or to provide needed materials and resources
 - The strategy of using the internet and word-of-mouth marketing to spread product information
 - The strategy of owning the means by which an organization produces goods or services

Difficulty: 2

Page-Reference: 60

Question ID: 02-1-96

Skill: Comprehension

Objective: 2.6

Answer : c.The strategy of paying suppliers and distributors to perform certain business processes or to provide needed materials and resources

97. An approach that moves from a department orientation to a process-team orientation is called
- process improvement.
 - business process management.
 - six sigma.
 - outsourcing.
 - virtual restructuring.

Difficulty: 2

Page-Reference: 61

Question ID: 02-1-97

Skill: Comprehension

Objective: 2.6

Answer : b.business process management.

98. Many firms use _____ to provide cafeteria operations for their customers.
- enterprise management
 - disruption management
 - outsourcing
 - core competencies
 - vertical integration

Difficulty: 2

Page-Reference: 60

Question ID: 02-1-98

Skill: Knowledge

Objective: 2.6

Answer : c.outsourcing

99. Martin, the CEO of a Canadian company that emphasizes social responsibility, observes that there are disadvantages associated with the company's planned increase in globalizing its production. What disadvantage is Martin most likely thinking about?
- Large job losses in Canada.
 - Greater disparities in living standards.
 - Reducing trade barriers between countries.
 - Job losses in developing markets.
 - Increased foreign competition.

Difficulty: 2

Page-Reference: 60

Question ID: 02-1-99

Skill: Analysis

Objective: 2.6

Answer : a.Large job losses in Canada.

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100. Which of the following best describes *viral marketing*?

- a. The strategy of paying suppliers and distributors to perform certain business processes or to provide needed materials and resources
- b. An approach by which firms move away from department-oriented organization and toward process-oriented structures that cut across old departmental boundaries
- c. The strategy of owning the means by which an organization produces goods or services
- d. Any activity that adds value to some input by transforming it into an output for an internal or external customer
- e. The strategy of using the internet and word-of-mouth marketing to spread product information

Difficulty: 2

Page-Reference: 61

Question ID: 02-1-100

Skill: Comprehension

Objective: 2.6

Answer : e. The strategy of using the internet and word-of-mouth marketing to spread product information

101. _____ uses games, contests, chat rooms, and bulletin boards to encourage potential customers to try out products and tell other people about them.

- a. Relationship marketing
- b. Business process management
- c. Enterprise planning
- d. Vertical integration
- e. Viral marketing

Difficulty: 2

Page-Reference: 61

Question ID: 02-1-101

Skill: Comprehension

Objective: 2.6

Answer : e. Viral marketing

102. Which of the following best describes *business process management*?

- a. An approach by which firms move away from department-oriented organization and toward process-oriented structures that cut across old departmental boundaries
- b. The strategy of paying suppliers and distributors to perform certain business processes or to provide needed materials and resources
- c. Any activity that adds value to some input by transforming it into an output for an internal or external customer
- d. The strategy of using the internet and word-of-mouth marketing to spread product information
- e. The strategy of owning the means by which an organization produces goods or services

Difficulty: 2

Page-Reference: 61

Question ID: 02-1-102

Skill: Comprehension

Objective: 2.6

Answer : a. An approach by which firms move away from department-oriented organization and toward process-oriented team structures that cut across old departmental boundaries

103. The most successful firms are getting leaner by focusing on their core competencies, but these new business models call for _____.

- a. environmental management
- b. unprecedented coordination
- c. new corporate boundaries
- d. unprecedented funds
- e. none of these are correct

Difficulty: 1

Page-Reference: 60

Question ID: 02-1-103

Skill: Knowledge

Objective: 2.6

Answer : b. unprecedented coordination

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104. The Organic Trade Association partnered with Free Range Graphics to produce a 5-minute on-line spoof of the latest Star Wars movie. The film was then passed around the internet by consumers who favour organic foods. This is an example of
- a strategic alliance.
 - viral marketing.
 - outsourcing.
 - business process management.
 - none of these.

Difficulty: 1 **Page-Reference:** 61
Question ID: 02-1-104 **Skill:** Comprehension
Objective: 2.6
Answer : b.viral marketing.

105. _____ is the approach by which firms move away from department-oriented organizations and toward process-oriented team structures.
- Business process management
 - Team management
 - Viral marketing
 - Departmentalization
 - None of these

Difficulty: 2 **Page-Reference:** 61
Question ID: 02-1-105 **Skill:** Knowledge
Objective: 2.6
Answer : a.Business process management

106. Which of the following is the best definition of *vertical merger*?
- A strategy in which one of the companies in the merger is a supplier or customer of the other
 - An approach by which firms move away from department-oriented organization and toward process-oriented structures that cut across old departmental boundaries
 - The strategy of using the internet and word-of-mouth marketing to spread product information
 - Any activity that adds value to some input by transforming it into an output for an internal or external customer
 - The strategy of paying suppliers and distributors to perform certain business processes or to provide needed materials and resources

Difficulty: 2 **Page-Reference:** 62
Question ID: 02-1-106 **Skill:** Comprehension
Objective: 2.7
Answer : a.A strategy in which one of the companies in the merger is a supplier or customer of the other

107. A(n) _____ is a merger to two firms that have previously had a buyer-seller relationship.
- hostile take over
 - conglomerate merger
 - friendly take over
 - vertical merger
 - enterprise merger

Difficulty: 1 **Page-Reference:** 62
Question ID: 02-1-107 **Skill:** Knowledge
Objective: 2.7
Answer : d.vertical merger

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108. Brown Inc. cuts and packages paper for photocopiers and printers. It merges with Yellow Inc. (a paper mill) in order to reduce the risk of a paper shortage. This is an example of a
- poison pill merger.
 - enterprise merger.
 - friendly takeover bid.
 - hostile takeover.
 - vertical merger.

Difficulty: 2 **Page-Reference:** 62
Question ID: 02-1-108 **Skill:** Comprehension
Objective: 2.7
Answer : e.vertical merger.

109. An acquisition takes place when
- two firms who previously have been buyer and seller merge.
 - two firms join together to form a new entity.
 - one firm consolidates with another.
 - one firm simply buys another.
 - management adopts a defence to make its firm less attractive.

Difficulty: 2 **Page-Reference:** 61
Question ID: 02-1-109 **Skill:** Comprehension
Objective: 2.7
Answer : d.one firm simply buys another.

110. When one company sells part of its existing business operations to another company, this is called
- outsourcing.
 - intense competition.
 - a spinoff.
 - a divestiture.
 - a strategic alliance.

Difficulty: 2 **Page-Reference:** 63
Question ID: 02-1-110 **Skill:** Knowledge
Objective: 2.7
Answer : d.a divestiture.

111. When Kraft Foods bought Cadbury, this was an example of _____, but when Molson combined with Adolph Coors, this was an example of _____.

- a hostile takeover; friendly takeover
- an acquisition; a horizontal merger
- a merger; an acquisition
- a poison pill; a divestiture
- a spinoff; a divestiture

Difficulty: 3 **Page-Reference:** 61-62
Question ID: 02-1-111 **Skill:** Comprehension
Objective: 2.7
Answer : b.an acquisition; a horizontal merger

112. If Shirley's Subs Inc. purchased Tony's Car Repair Inc., this would be an example of

- a horizontal merger.
- a conglomerate merger.
- a spinoff.
- a vertical merger.
- a divestiture.

Difficulty: 1 **Page-Reference:** 62
Question ID: 02-1-112 **Skill:** Comprehension
Objective: 2.7

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Answer : b.a conglomerate merger.

113. If Toyota Motors purchased Ruscombe Muffler, a small retail muffler business, the purchase would be
- a horizontal merger.
 - a conglomerate merger.
 - a spinoff.
 - a vertical merger.
 - a divestiture.

Difficulty: 2

Page-Reference: 62

Question ID: 02-1-113

Skill: Comprehension

Objective: 2.7

Answer : d.a vertical merger.

114. Company A and Company F have been in direct competition for years selling four-ply tissue paper. Recently, an announcement was made of a merger between the two companies. This would be a _____.

- reverse merger
- joint venture
- vertical merger
- friendly takeover
- horizontal merger

Difficulty: 2

Page-Reference: 62

Question ID: 02-1-114

Skill: Comprehension

Objective: 2.7

Answer : e.horizontal merger

115. Stone Inc. has just been through a friendly takeover. This means that

- two firms in completely unrelated businesses merge.
- two firms agree to join together.
- the acquired company welcomes the acquisition because it may need cash or other benefits which it believes will be available from the other firm.
- the organization will buy back their own stock from an investor who threatened a hostile takeover.
- the two firms were direct competitors before the merger and now will not compete with each other after the merger.

Difficulty: 2

Page-Reference: 63

Question ID: 02-1-115

Skill: Comprehension

Objective: 2.7

Answer : c.the acquired company welcomes the acquisition because it may need cash or other benefits which it believes will be available from the other firm.

116. BSX Inc. gave shareholders the right to purchase company stock at a 50 percent discount if a group without approval of BSX's board of directors acquired more than 20 percent of the company's shares. This is an example of

- a stock buyback.
- a conglomerate merger.
- greenmail.
- a poison pill.
- a vertical merger.

Difficulty: 1

Page-Reference: 63

Question ID: 02-1-116

Skill: Comprehension

Objective: 2.7

Answer : d.a poison pill.

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117. PepsiCo created a new corporation called Tricon Global Restaurants (now called Yum! Brands Inc.) which included Pizza Hut, KFC, and Taco Bell. This is an example of a(n)
- hostile takeover.
 - acquisition.
 - spinoff.
 - merger.
 - divestiture.

Difficulty: 2 **Page-Reference:** 63
Question ID: 02-1-117 **Skill:** Comprehension
Objective: 2.7
Answer : c.spinoff.

118. The primary objective of an ESOP is to
- keep management from making bad decisions.
 - protect against takeovers.
 - prevent worker strikes.
 - provide workers with financial security.
 - motivate workers to work harder.

Difficulty: 2 **Page-Reference:** 63
Question ID: 02-1-118 **Skill:** Comprehension
Objective: 2.7
Answer : e.motivate workers to work harder.

119. Regarding employee-owned corporations, the survey by Western Compensation & Benefits found that
- employee-owned corporations have been concentrated in the forest products sector.
 - the majority of companies that have adopted ESOPs have experienced improvements in both sales and profits.
 - the popularity of employee-owned corporations is decreasing.
 - it was originally thought that ESOPs would give employees an increased sense of belonging in the company that has not happened.
 - all of the statements are accurate.

Difficulty: 3 **Page-Reference:** 63
Question ID: 02-1-119 **Skill:** Knowledge
Objective: 2.7
Answer : b.the majority of companies that have adopted ESOPs have experienced improvements in both sales and profits.

Chapter 02 True/False Questions

1. The external environment has a limited impact on the success or failure of most organizations.
- True
 - False

Difficulty: 2 **Page-Reference:** 38
Question ID: 02-2-120 **Skill:** Knowledge
Objective: 2.1
Answer : b.False

2. While no single firm can control the environment, managers should not simply react to change; they should be proactive and at least try to influence their environment.
- True
 - False

Difficulty: 2 **Page-Reference:** 38
Question ID: 02-2-121 **Skill:** Knowledge
Objective: 2.1
Answer : a.True

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3. Traditionally, organizational boundaries were formerly clear-cut and easy to identify, but they are becoming increasingly complicated.

- a. True
- b. False

Difficulty: 1 **Page-Reference:** 38
Question ID: 02-2-122 **Skill:** Knowledge
Objective: 2.1
Answer : a.True

4. Prevailing economic conditions will affect the performance of almost every business.

- a. True
- b. False

Difficulty: 1 **Page-Reference:** 39
Question ID: 02-2-123 **Skill:** Comprehension
Objective: 2.2
Answer : a.True

5. With proper management by government, the ups and downs in the business cycle can be avoided.

- a. True
- b. False

Difficulty: 1 **Page-Reference:** 40
Question ID: 02-2-124 **Skill:** Comprehension
Objective: 2.2
Answer : b.False

6. Today, approximately 10 percent of the Canadian population works in agriculture.

- a. True
- b. False

Difficulty: 2 **Page-Reference:** 39
Question ID: 02-2-125 **Skill:** Knowledge
Objective: 2.2
Answer : b.False

7. An increase in aggregate output will typically result in a recession.

- a. True
- b. False

Difficulty: 2 **Page-Reference:** 41
Question ID: 02-2-126 **Skill:** Comprehension
Objective: 2.2
Answer : b.False

8. Profits from a Canadian-owned automobile factory in Brazil are included Brazil's GNP, but not its GDP.

- a. True
- b. False

Difficulty: 2 **Page-Reference:** 41-42
Question ID: 02-2-127 **Skill:** Comprehension
Objective: 2.2
Answer : b.False

9. Bellan Corp. is a Canadian-owned company that has a manufacturing plant in Germany. Bellan's profits are included in Canadian GNP, but not GDP.

- a. True
- b. False

Difficulty: 2 **Page-Reference:** 41-42
Question ID: 02-2-128 **Skill:** Comprehension

Objective: 2.2
Answer : a.True

10. GDP includes the total value of goods and services produced within a given period by a national economy through domestic factors of production.

- a. True
- b. False

Difficulty: 1 **Page-Reference:** 41
Question ID: 02-2-129 **Skill:** Knowledge
Objective: 2.2
Answer : a.True

11. GNP is the total value of all goods and services produced by a national economy within a given period, regardless of where the factors of production are located.

- a. True
- b. False

Difficulty: 1 **Page-Reference:** 42
Question ID: 02-2-130 **Skill:** Knowledge
Objective: 2.2
Answer : a.True

12. GNP is the preferred method of calculating national income and output.

- a. True
- b. False

Difficulty: 2 **Page-Reference:** 42
Question ID: 02-2-131 **Skill:** Knowledge
Objective: 2.2
Answer : b.False

13. The real growth rate of the Canadian economic system is the growth rate of GDP adjusted for inflation and changes in the value of a country's currency.

- a. True
- b. False

Difficulty: 2 **Page-Reference:** 42
Question ID: 02-2-132 **Skill:** Comprehension
Objective: 2.2
Answer : a.True

14. Canada's GDP in 2010 was approximately \$6.4 trillion.

- a. True
- b. False

Difficulty: 1 **Page-Reference:** 41
Question ID: 02-2-133 **Skill:** Knowledge
Objective: 2.2
Answer : b.False

15. Per capita GDP is calculated by dividing GDP by the total population.

- a. True
- b. False

Difficulty: 2 **Page-Reference:** 43
Question ID: 02-2-134 **Skill:** Application
Objective: 2.2
Answer : a.True

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16. Canada's per capita GDP is less than that of several countries, including the U.S., Luxembourg, Norway, Switzerland, and Denmark.

- a. True
- b. False

Difficulty: 2

Page-Reference: 43

Question ID: 02-2-135

Skill: Knowledge

Objective: 2.2

Answer : a.True

17. Nominal GDP is more important than real GDP.

- a. True
- b. False

Difficulty: 1

Page-Reference: 43

Question ID: 02-2-136

Skill: Comprehension

Objective: 2.2

Answer : b.False

18. Low inflation will allow a company like McDonald's to increase the prices it charges consumers.

- a. True
- b. False

Difficulty: 2

Page-Reference: 45

Question ID: 02-2-137

Skill: Comprehension

Objective: 2.2

Answer : b.False

19. Purchasing power parity is a principle that states exchange rates are set so that the prices of similar products in different countries are about the same.

- a. True
- b. False

Difficulty: 1

Page-Reference: 43

Question ID: 02-2-138

Skill: Knowledge

Objective: 2.2

Answer : a.True

20. The purchasing power parity idea gives us a better sense of the standards of living across the globe.

- a. True
- b. False

Difficulty: 2

Page-Reference: 43

Question ID: 02-2-139

Skill: Comprehension

Objective: 2.2

Answer : a.True

21. The purchasing power parity concept is interesting, but it doesn't give us much of an idea about what people can actually buy with the financial resources allocated to them by their economic system.

- a. True
- b. False

Difficulty: 2

Page-Reference: 43

Question ID: 02-2-140

Skill: Application

Objective: 2.2

Answer : b.False

22. If productivity increases, prices to consumers will tend to increase as well.

- a. True
- b. False

Difficulty: 2

Page-Reference: 43

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Question ID: 02-2-141 **Skill:** Comprehension
Objective: 2.2
Answer : b.False

23. The standard of living in a country improves mainly through increases in the money supply.

- a. True
- b. False

Difficulty: 1 **Page-Reference:** 41
Question ID: 02-2-142 **Skill:** Comprehension
Objective: 2.2
Answer : b.False

24. If France's exports exceed its imports, France has a positive balance of trade.

- a. True
- b. False

Difficulty: 2 **Page-Reference:** 43-44
Question ID: 02-2-143 **Skill:** Comprehension
Objective: 2.2
Answer : a.True

25. Canada's annual deficits during the past few years have been in the \$100 billion range.

- a. True
- b. False

Difficulty: 2 **Page-Reference:** 44
Question ID: 02-2-144 **Skill:** Knowledge
Objective: 2.2
Answer : a.True

26. The three primary factors that threaten stability are inflation, deflation, and unemployment.

- a. True
- b. False

Difficulty: 2 **Page-Reference:** 45
Question ID: 02-2-145 **Skill:** Knowledge
Objective: 2.2
Answer : a.True

27. Inflation occurs when there are increased goods and services for sale.

- a. True
- b. False

Difficulty: 1 **Page-Reference:** 45
Question ID: 02-2-146 **Skill:** Comprehension
Objective: 2.2
Answer : b.False

28. The only real effect of inflation is to increase the purchasing power of a person's money.

- a. True
- b. False

Difficulty: 2 **Page-Reference:** 45
Question ID: 02-2-147 **Skill:** Comprehension
Objective: 2.2
Answer : b.False

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29. The consumer price index (CPI) is a measure of the prices of typical products purchased by consumers.

- a. True
- b. False

Difficulty: 1

Page-Reference: 46

Question ID: 02-2-148

Skill: Knowledge

Objective: 2.2

Answer : a.True

30. The items in the typical "basket of goods" that are included in the consumer price index has not changed much over the years so that current figures are comparable with historical figures.

- a. True
- b. False

Difficulty: 1

Page-Reference: 46

Question ID: 02-2-149

Skill: Comprehension

Objective: 2.2

Answer : b.False

31. The proportion of personal income that consumers spend on necessities like food and housing has declined during the past 40 years.

- a. True
- b. False

Difficulty: 2

Page-Reference: 46

Question ID: 02-2-150

Skill: Knowledge

Objective: 2.2

Answer : a.True

32. Unemployment reflects the joblessness level of the adult population in an economic system, whether or not they are actively seeking work.

- a. True
- b. False

Difficulty: 1

Page-Reference: 47

Question ID: 02-2-151

Skill: Comprehension

Objective: 2.2

Answer : b.False

33. When unemployment is low, businesses tend to raise the wages that they are willing to pay.

- a. True
- b. False

Difficulty: 2

Page-Reference: 47

Question ID: 02-2-152

Skill: Application

Objective: 2.2

Answer : a.True

34. Levi is temporarily unemployed while he looks for a new job. Levi is experiencing frictional unemployment.

- a. True
- b. False

Difficulty: 2

Page-Reference: 47

Question ID: 02-2-153

Skill: Comprehension

Objective: 2.2

Answer : a.True

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35. Cyclical unemployment occurs as a result of a downturn in the business cycle.

- a. True
- b. False

Difficulty: 2

Page-Reference: 47

Question ID: 02-2-154

Skill: Comprehension

Objective: 2.2

Answer : a.True

36. Ted has not worked in 5 years and has given up finding a job. He is counted in the ranks of the unemployed.

- a. True
- b. False

Difficulty: 2

Page-Reference: 47

Question ID: 02-2-155

Skill: Comprehension

Objective: 2.2

Answer : b.False

37. Full employment is impossible.

- a. True
- b. False

Difficulty: 2

Page-Reference: 47

Question ID: 02-2-156

Skill: Comprehension

Objective: 2.2

Answer : a.True

38. In order to achieve full employment, government economists require that each business establish that as a goal.

- a. True
- b. False

Difficulty: 2

Page-Reference: 47

Question ID: 02-2-157

Skill: Comprehension

Objective: 2.2

Answer : b.False

39. Full employment means that everyone who wants to work has an opportunity to do so.

- a. True
- b. False

Difficulty: 1

Page-Reference: 47

Question ID: 02-2-158

Skill: Knowledge

Objective: 2.2

Answer : a.True

40. Sharon is unemployed while she gets training for a new job. Sharon is experiencing cyclical unemployment.

- a. True
- b. False

Difficulty: 2

Page-Reference: 47

Question ID: 02-2-159

Skill: Comprehension

Objective: 2.2

Answer : b.False

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41. Agricultural efficiency in Canada has shown only slight improvement in the last century because only a small percentage of the population works in agriculture.

- a. True
- b. False

Difficulty: 2

Page-Reference: 39

Question ID: 02-2-160

Skill: Comprehension

Objective: 2.2

Answer : b.False

42. Stability, as an economic goal, is a condition in which there is a balance between money available and goods produced.

- a. True
- b. False

Difficulty: 2

Page-Reference: 48

Question ID: 02-2-161

Skill: Comprehension

Objective: 2.2

Answer : a.True

43. Generally speaking, fiscal policy is more effective than monetary policy.

- a. True
- b. False

Difficulty: 2

Page-Reference: 48

Question ID: 02-2-162

Skill: Comprehension

Objective: 2.2

Answer : b.False

44. Although many people associate technology with manufacturing, it is also a significant force in the service sector.

- a. True
- b. False

Difficulty: 2

Page-Reference: 49

Question ID: 02-2-163

Skill: Comprehension

Objective: 2.3

Answer : a.True

45. Cycle time is the time, from beginning to end, that it takes a firm to accomplish some recurring activity or function.

- a. True
- b. False

Difficulty: 2

Page-Reference: 51

Question ID: 02-2-164

Skill: Knowledge

Objective: 2.3

Answer : a.True

46. Businesses have found that they can be more competitive if they are able to increase cycle times.

- a. True
- b. False

Difficulty: 2

Page-Reference: 51

Question ID: 02-2-165

Skill: Comprehension

Objective: 2.3

Answer : b.False

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47. Technology transfer is more important than R&D intensity.

- a. True
- b. False

Difficulty: 2

Page-Reference: 52

Question ID: 02-2-166

Skill: Comprehension

Objective: 2.3

Answer : b.False

48. R&D spending in Canada in 2010 totalled about \$15 billion.

- a. True
- b. False

Difficulty: 2

Page-Reference: 49

Question ID: 02-2-167

Skill: Knowledge

Objective: 2.3

Answer : a.True

49. Khalid is a research chemist who is continually experimenting with how chemical compounds behave. He knows that his activity might or might not result in a marketable product. Kahlid is engaged in pure research.

- a. True
- b. False

Difficulty: 2

Page-Reference: 49

Question ID: 02-2-168

Skill: Comprehension

Objective: 2.3

Answer : a.True

50. In Canada, the private sector accounts for more than half of all R&D expenditures.

- a. True
- b. False

Difficulty: 2

Page-Reference: 49

Question ID: 02-2-169

Skill: Knowledge

Objective: 2.3

Answer : a.True

51. Canada's R&D expenditures (as a percent of GDP) lag behind those of the U.S. because many Canadian businesses are subsidiaries of large U.S. companies, and those companies carry out their R&D in the United States.

- a. True
- b. False

Difficulty: 2

Page-Reference: 49

Question ID: 02-2-170

Skill: Comprehension

Objective: 2.3

Answer : a.True

52. Canada's R&D expenditures are much smaller than those of the U.S. in total dollar terms, but when measured as a percent of GDP, Canada's R&D expenditures exceed those in the U.S.

- a. True
- b. False

Difficulty: 2

Page-Reference: 49

Question ID: 02-2-171

Skill: Comprehension

Objective: 2.3

Answer : b.False

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53. Enterprise Resource Planning is an example of a process technology.

- a. True
- b. False

Difficulty: 1 **Page-Reference:** 52
Question ID: 02-2-172 **Skill:** Comprehension
Objective: 2.3
Answer : a.True

54. Company-wide processes, such as materials management, production planning, order management, and financial reporting, can all be managed by enterprise resource planning.

- a. True
- b. False

Difficulty: 2 **Page-Reference:** 52
Question ID: 02-2-173 **Skill:** Knowledge
Objective: 2.3
Answer : a.True

55. R&D intensity refers to R&D spending as a percentage of a company's sales revenue.

- a. True
- b. False

Difficulty: 2 **Page-Reference:** 51
Question ID: 02-2-174 **Skill:** Knowledge
Objective: 2.3
Answer : a.True

56. Political stability is an important factor in international firms because no business wants to set up shop in another country unless trade relationships with that country are well defined and stable.

- a. True
- b. False

Difficulty: 1 **Page-Reference:** 54
Question ID: 02-2-175 **Skill:** Comprehension
Objective: 2.4
Answer : a.True

57. A product such as bicycles can be marketed in much the same way in Canada and China.

- a. True
- b. False

Difficulty: 2 **Page-Reference:** 56
Question ID: 02-2-176 **Skill:** Application
Objective: 2.5
Answer : b.False

58. Customer preferences must be taken into consideration across national boundaries, but not generally within the same country.

- a. True
- b. False

Difficulty: 2 **Page-Reference:** 56
Question ID: 02-2-177 **Skill:** Application
Objective: 2.5
Answer : b.False

59. Whiskey, vodka, gin, and cigarettes are less commonly used today than they were just a few years ago.

- a. True
- b. False

Difficulty: 1 **Page-Reference:** 56

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Question ID: 02-2-178 **Skill:** Knowledge
Objective: 2.5
Answer : a.True

60. Socio-cultural factors influence the way workers in a society feel about their jobs; the job can have meaningful social significance or it can simply be a means to an end.

- a. True
- b. False

Difficulty: 2 **Page-Reference:** 56
Question ID: 02-2-179 **Skill:** Comprehension
Objective: 2.5
Answer : a.True

61. Product life cycles are somewhat longer than they were 20 years ago because products have become more complex.

- a. True
- b. False

Difficulty: 1 **Page-Reference:** 57
Question ID: 02-2-180 **Skill:** Comprehension
Objective: 2.6
Answer : b.False

62. Viral marketing uses word of mouth to spread information from customer to customer.

- a. True
- b. False

Difficulty: 2 **Page-Reference:** 61
Question ID: 02-2-181 **Skill:** Knowledge
Objective: 2.6
Answer : a.True

63. An example of a merger would be the joining of Canadian National Railways with the Illinois Central Railroad.

- a. True
- b. False

Difficulty: 2 **Page-Reference:** 61-62
Question ID: 02-2-182 **Skill:** Comprehension
Objective: 2.7
Answer : a.True

64. A hostile takeover occurs when one organization buys enough of another company's shares to take control of that company even though that company may be opposed to the takeover.

- a. True
- b. False

Difficulty: 2 **Page-Reference:** 63
Question ID: 02-2-183 **Skill:** Knowledge
Objective: 2.7
Answer : a.True

65. In an acquisition, one firm simply buys another firm, whereas in a merger the consolidation is more collaborative.

- a. True
- b. False

Difficulty: 1 **Page-Reference:** 61
Question ID: 02-2-184 **Skill:** Knowledge
Objective: 2.7

Answer : a.True

66. When Agricore and United Grain Growers merged to form Agricore United, this was an example of a vertical merger.

- a. True
- b. False

Difficulty: 1

Page-Reference: 62

Question ID: 02-2-185

Skill: Comprehension

Objective: 2.7

Answer : b.False

67. When Adolph Coors Co. merged with Molson Inc., this was an example of a horizontal merger.

- a. True
- b. False

Difficulty: 1

Page-Reference: 62

Question ID: 02-2-186

Skill: Comprehension

Objective: 2.7

Answer : a.True

68. The majority of companies that have adopted ESOPs have experienced improvement in both sales and profits.

- a. True
- b. False

Difficulty: 1

Page-Reference: 63

Question ID: 02-2-187

Skill: Knowledge

Objective: 2.7

Answer : a.True

Chapter 02 Short Answer Questions

1. What is an *organizational boundary*?

Difficulty: 2

Page-Reference: 38

Question ID: 02-3-188

Skill: Knowledge

Objective: 2.1

Answer : An *organizational boundary* is that which separates the organization from its environment.

2. List five dimensions of the external environment of business organizations.

Difficulty: 2

Page-Reference: 39-40

Question ID: 02-3-189

Skill: Knowledge

Objective: 2.1

Answer : economic, technological, political-legal, socio-cultural, and business environments

3. What is the main measure of growth in the business cycle?

Difficulty: 2

Page-Reference: 41

Question ID: 02-3-190

Skill: Knowledge

Objective: 2.2

Answer : The main measure of growth in the business cycle is aggregate output.

4. How is *GDP per capita* calculated?

Difficulty: 2

Page-Reference: 43

Question ID: 02-3-191

Skill: Application

Objective: 2.2

Answer : *GDP per capita* is calculated by dividing the total GDP by the total population of a country.

5. List the three key goals of the Canadian economic system.

Difficulty: 1 **Page-Reference:** 39
Question ID: 02-3-192 **Skill:** Knowledge
Objective: 2.2
Answer : economic growth, economic stability, and full employment

6. Under what circumstances can inflation be a positive factor?

Difficulty: 2 **Page-Reference:** 45
Question ID: 02-3-193 **Skill:** Comprehension
Objective: 2.2
Answer : As a sign of economic growth, more product sold, more workers hired, more investment in new products

7. What is the *national debt*?

Difficulty: 1 **Page-Reference:** 44
Question ID: 02-3-194 **Skill:** Comprehension
Objective: 2.2
Answer : The *national debt* is the amount of money a country owes its creditors.

8. What are the three primary factors that threaten economic stability?

Difficulty: 1 **Page-Reference:** 45
Question ID: 02-3-195 **Skill:** Knowledge
Objective: 2.2
Answer : Inflation, deflation, and unemployment are the three primary factors that threaten economic stability.

9. What is measured by the consumer price index (CPI)?

Difficulty: 1 **Page-Reference:** 46
Question ID: 02-3-196 **Skill:** Comprehension
Objective: 2.2
Answer : The consumer price index measures the changes in the cost of a "basket" of goods and services that typical family might buy.

10. What is reflected in the *real GDP*?

Difficulty: 2 **Page-Reference:** 43
Question ID: 02-3-197 **Skill:** Comprehension
Objective: 2.2
Answer : The *real GDP* is calculated to account for changes in currency values and price changes.

11. What is the *national debt*?

Difficulty: 2 **Page-Reference:** 44
Question ID: 02-3-198 **Skill:** Comprehension
Objective: 2.2
Answer : The *national debt* is the amount of money a country owes its creditors.

12. Define the term *unemployment*.

Difficulty: 2 **Page-Reference:** 47
Question ID: 02-3-199 **Skill:** Knowledge
Objective: 2.2
Answer : *Unemployment* is the joblessness of people actively seeking work in an economic system.

13. What is *cyclical unemployment*?

Difficulty: 2 **Page-Reference:** 47
Question ID: 02-3-200 **Skill:** Knowledge
Objective: 2.2

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Answer : *Cyclical unemployment* is unemployment that results from a downturn in the business cycle.

14. What is a *recession*?

Difficulty: 2 **Page-Reference:** 40
Question ID: 02-3-201 **Skill:** Knowledge
Objective: 2.2

Answer : A *recession* is a period during which aggregate output declines.

15. What is *R&D intensity*?

Difficulty: 1 **Page-Reference:** 51
Question ID: 02-3-202 **Skill:** Knowledge
Objective: 2.3

Answer : R&D spending as a percentage of the company's sales revenue.

16. Why are customer preferences and tastes important to business?

Difficulty: 1 **Page-Reference:** 56
Question ID: 02-3-203 **Skill:** Comprehension
Objective: 2.4

Answer : Tastes and preferences determine what products and services will sell in various geographic regions and among various ethnic groups in Canada.

17. List the five forces in Porter's model.

Difficulty: 1 **Page-Reference:** 58-60
Question ID: 02-3-204 **Skill:** Knowledge
Objective: 2.6

Answer : Rivalry among existing competitors, threat of potential entrants, suppliers, buyers, and substitutes.

18. What is meant by the term *core competencies*?

Difficulty: 2 **Page-Reference:** 60
Question ID: 02-3-205 **Skill:** Knowledge
Objective: 2.6

Answer : *Core competencies* are the skills and resources with which an organization competes best and creates the most values for owners.

19. What is *outsourcing*?

Difficulty: 2 **Page-Reference:** 60
Question ID: 02-3-206 **Skill:** Knowledge
Objective: 2.6

Answer : *Outsourcing* is a strategy of paying suppliers and distributors to perform certain business processes or to provide needed materials or resources.

20. What is a *process*?

Difficulty: 2 **Page-Reference:** 61
Question ID: 02-3-207 **Skill:** Knowledge
Objective: 2.6

Answer : A *process* is any activity that adds value to some input, transforming it into an output for a customer.

21. What is a *vertical merger*?

Difficulty: 2 **Page-Reference:** 62
Question ID: 02-3-208 **Skill:** Knowledge
Objective: 2.7

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Answer : A *vertical merger* occurs when one of the companies involved in the merger is a supplier or customer of the other.

Chapter 02 Essay Questions

1. How might moderate unemployment and low inflation affect a McDonald's restaurant?

Difficulty: 3 **Page-Reference:** 45-47
Question ID: 02-4-209 **Skill:** Application
Objective: 2.2

Answer : Moderate unemployment will result in most people being able to afford to eat out, but it also means that McDonald's must pay higher wages to attract employees. Low inflation will result in McDonald's paying relatively constant prices for its supplies, but it also means that McDonald's will be constrained from increasing the prices it charges.

2. How does GNP differ from GDP? Give an example of a product that would be included in Canada's GNP, but not its GDP.

Difficulty: 3 **Page-Reference:** 41-42
Question ID: 02-4-210 **Skill:** Comprehension
Objective: 2.2

Answer : A nation's gross national product (GNP) measures the total value of all goods and services produced by its economy within a given period of time, regardless of where the factors of production are located. A nation's gross domestic product (GDP) measures the total value of all goods and services produced within a given period by a national economy through domestic factors of production. As such, the profits earned by a Canadian-owned automobile plant operating in Brazil would be included in the Canadian GNP, but not Canadian GDP.

3. How does the national debt affect economic growth?

Difficulty: 3 **Page-Reference:** 44
Question ID: 02-4-211 **Skill:** Comprehension
Objective: 2.2

Answer : A country's national debt is the amount of money that the government owes its creditors. The government raises money through taxes and the sale of bonds. By selling bonds, the government competes with other potential borrowers for the available supply of loanable money. The more the government borrows, the less money is available for the private borrowing and investment that increases productivity.

4. What is inflation and how does it threaten economic stability?

Difficulty: 3 **Page-Reference:** 45-46
Question ID: 02-4-212 **Skill:** Comprehension
Objective: 2.2

Answer : Inflation occurs when there are widespread price increases throughout an economic system. During periods of inflation, the amount of money injected into an economy outstrips the increase in actual output. When this happens, people will have more money to spend, but there will still be the same quantity of products available for them to buy. As they compete with one another to buy available products, prices go up. Higher prices erase the increase in the amount of money injected into the economy and purchasing power declines.

5. What is unemployment? How does low unemployment threaten economic stability?

Difficulty: 3 **Page-Reference:** 47
Question ID: 02-4-213 **Skill:** Comprehension
Objective: 2.2

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Answer : Unemployment is the joblessness of people actively seeking work in an economic system. While low unemployment might seem to be positive, it can threaten economic stability. When unemployment is low, there is a shortage of labour available for businesses to hire. As businesses compete with one another for the available supply of labour, businesses raise the wages that they are willing to pay. Because higher wages cut into profit margins, companies raise the prices of their products. While the increase in pay results in consumers having more money to spend, high prices offset any gain and purchasing power declines.

6. What are some of the solutions to Canada's low productivity growth rate problem?

Difficulty: 3 **Page-Reference:** 50
Question ID: 02-4-214 **Skill:** Application
Objective: 2.2

Answer : The following actions have been suggested:

- Develop more partnerships between business and academic institutions
- Stop subsidizing uncompetitive industries like shipbuilding
- Invest in upgrading workforce skills
- Create greater incentives to rejoin the workforce for those on welfare
- Levy training costs on businesses like some European countries do

7. How is the effectiveness of the government's attempts to manage Canada's economy measured? Briefly explain each tool.

Difficulty: 2 **Page-Reference:** 41-45
Question ID: 02-4-215 **Skill:** Comprehension
Objective: 2.2

Answer :

- GDP: value of all goods and services produced *in* a country
- GNP: value of all goods and services produced *by* a country
- Productivity: a measure of efficiency
- Standard of living: a measure of a society's economic well-being
- Balance of trade: exports minus imports.

8. Draw a model of the business cycle that depicts each of its four phases.

Difficulty: 2 **Page-Reference:** 42
Question ID: 02-4-216 **Skill:** Knowledge
Objective: 2.2

Answer : See Figure 2.2.

9. What are the pros and cons of prolonged economic stability?

Difficulty: 2 **Page-Reference:** 48
Question ID: 02-4-217 **Skill:** Comprehension
Objective: 2.2

Answer : pros: balance, wages constant, low inflation, predictability, stable interest rates
 cons: possible stagnation, less innovation, decreasing efficiency, job loss, slowed economy, high unemployment

10. List and describe the three factors that threaten stability.

Difficulty: 1 **Page-Reference:** 45-47
Question ID: 02-4-218 **Skill:** Knowledge
Objective: 2.2

Answer :

1. Inflation—the occurrence of widespread price increases throughout an economic system
2. deflation—a period of generally falling prices
3. unemployment—the level of joblessness among people actively seeking work in an economic system

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11. List and discuss the 4 different types of unemployment, using examples to demonstrate the different types.

Difficulty: 2 **Page-Reference:** 47
Question ID: 02-4-219 **Skill:** Comprehension
Objective: 2.2
Answer : frictional unemployment, seasonal unemployment, cyclical unemployment, structural unemployment. Examples will vary.

12. Why is it important for businesses to be aware of trends in the political-legal environment?

Difficulty: 3 **Page-Reference:** 54-55
Question ID: 02-4-220 **Skill:** Application
Objective: 2.3
Answer : For several reasons, it is important for businesses to be aware of trends in the political-legal environment. First, the legal system defines in part what an organization can and can't do. Various government agencies regulate important areas such as advertising practices, safety and health considerations, and acceptable standards of business conduct. Periods of pro-business sentiment may result in less regulation, while periods of anti-business sentiment may result in greater restriction in competitive activities. Finally, political stability is also an important consideration, especially for international firms.

13. What is *outsourcing*? Give an example of outsourcing.

Difficulty: 3 **Page-Reference:** 60
Question ID: 02-4-221 **Skill:** Comprehension
Objective: 2.6
Answer : *Outsourcing* is the strategy of paying suppliers and distributors to perform certain business processes or to provide needed materials and services. A large bank might outsource an ancillary service such as food service. Other firms outsource payroll, training, and research and development functions.

14. Describe three advantages of *outsourcing*.

Difficulty: 3 **Page-Reference:** 60
Question ID: 02-4-222 **Skill:** Comprehension
Objective: 2.6
Answer : Outsourcing provides a number of advantages to organizations. Outsourcing often saves time and money, increases effectiveness in a firm's core business, and results in more value for customers and owners.

15. Describe at least three disadvantages of outsourcing.

Difficulty: 3 **Page-Reference:** 60
Question ID: 02-4-223 **Skill:** Comprehension
Objective: 2.6
Answer : Outsourcing has a number of disadvantages. According to one study, one quarter of all outsourcing relationships failed within two years and one half of all outsourcing relationships failed within five years. Many executives told researchers that suppliers too often didn't understand what they were supposed to do, charged too much, and provided poor service. When disruptions occur in the supply chain, the costs to both parties can be high. Replacing failed outsourced operations can be very expensive. Finally, outsourcing can result in a loss of control over both operations and information.

16. What is viral marketing and why do firms use it?

Difficulty: 3 **Page-Reference:** 61
Question ID: 02-4-224 **Skill:** Comprehension
Objective: 2.6

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Answer : Viral marketing is the strategy of using the internet and word-of-mouth marketing to spread product information. Viral marketing can gain consumer awareness faster and with wider reach than traditional media messages, at a lower cost.

17. What is a vertical merger? Provide an example.

Difficulty: 3 **Page-Reference:** 62
Question ID: 02-4-225 **Skill:** Comprehension
Objective: 2.7

Answer : A vertical merger occurs when there is a consolidation of two firms and one of the firms is a supplier or customer of the other. An example would include a car manufacturer merging with one of its parts suppliers.

18. How does poison pill strategy work?

Difficulty: 3 **Page-Reference:** 63
Question ID: 02-4-226 **Skill:** Comprehension
Objective: 2.7

Answer : A poison pill is a defence used to make a firm less attractive to an actual or potential hostile suitor in a takeover attempt. The objective is to make the "pill" so distasteful that the potential acquirer will not want to swallow it. For example BCE allowed its shareholders to purchase BCE stock at a 50% discount if another organization announced its intention to purchase 20% or more of BCE.