

Exam

Name _____

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

- 1) Finance is any transaction where money is exchanged for goods and services. 1) _____
Answer: True ☒ False
- 2) Finance is any transaction where money is exchanged for money or a money-like instrument. 2) _____
Answer: ☒ True False
- 3) A dividend is an after tax payment that must be made by all stock companies to the stockholders each year. 3) _____
Answer: True ☒ False
- 4) The United States operates with a free enterprise system. 4) _____
Answer: ☒ True False
- 5) A market economy is one where all goods and services are exchanged freely. 5) _____
Answer: True ☒ False
- 6) Wheat, soybeans, oil, and gold are commodities. 6) _____
Answer: ☒ True False
- 7) The mental and physical talents of human beings are entrepreneurial resources. 7) _____
Answer: True ☒ False
- 8) The stocks and bonds issued by a corporation are the economic capital resources of the corporation. 8) _____
Answer: True ☒ False
- 9) The stocks and bonds issued by a corporation are the financial capital resources of the corporation. 9) _____
Answer: ☒ True False
- 10) In market transactions, when one party wins, the other usually feels as though he or she lost. 10) _____
Answer: True ☒ False
- 11) The law of demand states that as the price of an item falls, the quantity demanded will decrease, ceteris paribus. 11) _____
Answer: True ☒ False
- 12) As the price of an item increases, the quantity of the item provided to the marketplace will increase, ceteris paribus. 12) _____
Answer: ☒ True False
- 13) First National Bank is the central bank of the United States. 13) _____
Answer: True ☒ False

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

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

- 21) Which of the following can be used to finance a small business? 21) _____
A) borrowing from other individuals
B) using one's own savings
C) borrowing money from financial institutions
D) using cash generated from current sales
E) all of the above
Answer: E
- 22) Which of the following is NOT a viable source of financing for the small business? 22) _____
A) borrowing from other individuals
B) using cash generated from current sales
C) using one's own savings
D) borrowing money from financial institutions
E) issuing bonds to the general public
Answer: E
- 23) An organized effort where goods and services are freely exchanged is known as a 23) _____
A) market. B) business. C) religion. D) government.
Answer: A
- 24) Which of the following is NOT a primary participant in the financial marketplace? 24) _____
A) military units B) individual households
C) businesses D) governments
Answer: A

- 25) There are several markets in the United States. The market where property is exchanged is the 25) _____
A) commodity market.
B) retail market.
C) real estate market.
D) financial market.
E) none of the above.

Answer: C

- 26) There are several markets in the United States. The market where corn, wheat, soybeans, and oil are 26) _____
exchanged is the
A) retail market.
B) real estate market.
C) financial market.
D) commodity market.
E) none of the above.

Answer: D

- 27) There are several markets in the United States. The market where stocks, bonds, and money are 27) _____
exchanged is the
A) financial market.
B) retail market.
C) real estate market.
D) commodity market.
E) none of the above.

Answer: A

- 28) There are several markets in the United States. The market where television sets are exchanged is 28) _____
the
A) financial market
B) real estate market.
C) retail market.
D) commodity market.
E) none of the above.

Answer: C

- 29) There are several markets in the United States. The market where final goods and services are 29) _____
exchanged is the
A) real estate market.
B) commodity market.
C) financial market.
D) retail market.
E) none of the above.

Answer: D

- 30) The primary savers of funds in the United States are 30) _____
A) households.
B) governments.
C) businesses.
D) all of the above.
E) none of the above.

Answer: A

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

Answer: D

- 32) Human beings have _____ wants and desires for goods and services. They also have _____ 32) _____
financial means with which to pay for them.
A) limited; unlimited B) limited; limited
C) unlimited; unlimited D) unlimited; limited

Answer: D

- 33) A tree in a forest is an example of a(n) _____ 33) _____
A) capital resource. B) entrepreneurial resource.
C) natural resource. D) human resource.

Answer: C

- 34) The classroom on a college campus is an example of a(n) _____ 34) _____
A) capital resource. B) human resource.
C) natural resource. D) entrepreneurial resource.

Answer: A

- 35) When Bill Gates developed MS-DOS and founded Microsoft to market this product, he was using _____ 35) _____
a(n)
A) human resource. B) capital resource.
C) natural resource. D) entrepreneurial resource.

Answer: D

- 36) When a college hires a professor, they are employing a(n) _____ 36) _____
A) capital resource. B) natural resource.
C) entrepreneurial resource. D) human resource.

Answer: D

- 37) Which of the following is NOT an example of economic capital? _____ 37) _____
A) a bond issued by IBM
B) an electric plant used by a local utility to generate electricity
C) a desk in a classroom
D) a delivery truck used by Federal Express
E) all of the above

Answer: A

- 38) Which of the following is NOT an example of economic capital? _____ 38) _____
A) a delivery truck used by Federal Express
B) a share of stock issued by IBM
C) an electric plant used by a local utility to generate electricity
D) a desk in a classroom
E) all of the above

Answer: B

- 39) Which of the following is an example of financial capital? 39) _____
- A) a share of stock issued by IBM
 - B) a delivery truck used by Federal Express
 - C) an electric plant used by a local utility to generate electricity
 - D) a desk in a classroom
 - E) all of the above

Answer: A

- 40) A local computer manufacturer hires an additional worker and pays \$10.00 per hour for an 8-hour day. The worker is capable of assembling 3 computers an hour. The firm sells each computer for \$1,500. What is the marginal physical product of this worker? 40) _____
- A) \$1,500 per unit produced
 - B) 3 computers per hour
 - C) \$80.00 per day
 - D) \$10.00 per hour

Answer: B

- 41) The highest value surrendered when a decision is made is 41) _____
- A) capital cost.
 - B) economic cost.
 - C) marginal cost.
 - D) absolute cost.
 - E) opportunity cost.

Answer: E

- 42) The cost associated with hiring one more unit of labor is 42) _____
- A) absolute cost.
 - B) opportunity cost.
 - C) marginal cost.
 - D) capital cost.
 - E) economic cost.

Answer: C

- 43) John's friend just gave him a pair of concert tickets to see his favorite rock group perform this weekend. Each ticket sells for \$25. John's boss asked him to work overtime the same weekend and at the same time as the concert. John currently makes \$10.00 an hour and his overtime pay for the four hours his boss asked him to work is double the hourly rate. If John decides to go to the concert, his opportunity cost is 43) _____
- A) \$50.00 because that is what his friend paid for the tickets.
 - B) \$80.00 in lost pay.
 - C) \$40.00 in lost pay.
 - D) \$50.00 for the two tickets.
 - E) nothing because the concert tickets were free for John.

Answer: B

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

- A) \$30,000.
- B) \$32,000.
- C) \$33,000.
- D) \$35,000.
- E) nothing because she took the job with the highest salary.

Answer: D

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

- A) \$30,000.
- B) \$32,000.
- C) \$33,000.
- D) \$35,000.
- E) \$36,000.

Answer: E

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

- A) interest earned on savings accounts
- B) wages and tips
- C) profit made by an entrepreneur
- D) rental income on property
- E) all of the above

Answer: E

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

- A) proportional taxes
- B) proposed taxes
- C) regressive taxes
- D) progressive taxes
- E) all of the above

Answer: B

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

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

Answer: D

- 49) John Gates made \$25,000 last year and paid \$1,500 in taxes on this income. Jane Smith made \$30,000 last year and paid \$3,000 in taxes on this income. What type of tax is the government using? 49) _____
- A) progressive taxes
 - B) regressive taxes
 - C) proportional taxes
 - D) proposed taxes
 - E) impossible to calculate with the information provided

Answer: A

- 50) John Gates made \$25,000 last year and paid \$2,500 in taxes on this income. Jane Smith made \$30,000 last year and paid \$2,700 in taxes on this income. What type of tax is the government using? 50) _____
- A) progressive taxes
 - B) proportional taxes
 - C) regressive taxes
 - D) proposed taxes
 - E) impossible to calculate with the information provided

Answer: C

- 51) John Gates made \$25,000 last year and paid \$2,500 in taxes. What percentage of his income did John pay in taxes? 51) _____
- A) 1%
 - B) 9%
 - C) 10%
 - D) 90%
 - E) impossible to calculate with the information provided

Answer: C

- 52) Jane Smith made \$30,000 last year and paid \$8,400 in taxes. What percentage of her income did Jane pay in taxes? 52) _____
- A) 2.8% B) 3.57% C) 7.2% D) 28% E) 72%

Answer: D

- 53) Which of the following is an example of a regressive tax? 53) _____
- A) flat tax
 - B) sales tax
 - C) property tax
 - D) income tax
 - E) All taxes are regressive taxes.

Answer: B

- 54) Which of the following is an example of a progressive tax? 54) _____
- A) flat tax
 - B) income tax
 - C) property tax
 - D) sales tax
 - E) Both A and B above were noted in the text as progressive taxes.

Answer: E

- 55) Which of the following is an example of a progressive tax? 55) _____
A) Social Security tax
B) sales tax
C) income tax
D) property tax
E) All taxes are progressive taxes.
Answer: C
- 56) The price paid for money is 56) _____
A) the interest rate charged by the lender.
B) the principal and interest rate charged by the lender.
C) the amount borrowed from the lender.
D) the actual payment made by the borrower to the lender.
E) There is no price paid for money as it is not for sale.
Answer: A
- 57) The supply of money saved includes all of the following EXCEPT 57) _____
A) stocks held for investors by brokerage houses.
B) demand deposits in banks.
C) savings accounts in banks.
D) money market mutual funds in brokerage houses.
E) all of the above.
Answer: A
- 58) A union has negotiated a contract that states the following: work up to 40 hours per week will be paid at a base rate of \$10 per hour. All work in excess of 40 hours, but less than 48 hours will be paid at a rate equal to $1\frac{1}{2}$ times the base rate. Any work in excess of 48 hours will be paid at double time. This pay scale agrees with 58) _____
A) the law of supply.
B) the law of supply and demand.
C) the law of demand.
D) ceteris paribus.
E) can't tell with the information provided.
Answer: A
- 59) Albert Jones went to his local department store to purchase a pair of Levi's®. He thought that the style of Levi's® that he wanted would sell for about \$30 a pair. When he got to the store, he saw a sign which said, Levi's®, all styles, \$18 a pair. Albert bought three pairs of Levi's®. The behavior of Albert is consistent with 59) _____
A) the law of supply and demand.
B) the law of demand.
C) the law of supply.
D) ceteris paribus.
E) can't tell with the information provided.
Answer: B

Table 1-1. Supply and Demand for Personal Computers

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

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

- A) a surplus or a shortage of 2,000 computers.
- B) a surplus of 2,000 computers.
- C) a shortage of 2,000 computers.
- D) neither a surplus nor a shortage of computers as the market is in equilibrium at this price.

Answer: C

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

- A) a shortage of 2,000 computers.
- B) a surplus or a shortage of 2,000 computers.
- C) neither a surplus nor a shortage of computers as the market is in equilibrium at this price.
- D) a surplus of 2,000 computers.

Answer: C

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

- A) a surplus or a shortage of 2,000 computers.
- B) a surplus of 2,000 computers.
- C) neither a surplus nor a shortage of computers as the market is in equilibrium at this price.
- D) a shortage of 2,000 computers.

Answer: B

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

- A) increase interest rates to attract more savers.
- B) lower interest rates to discourage savers.
- C) put money on sale by making loans more attractive.
- D) both A and B above.
- E) both B and C above.

Answer: E

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

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

Answer: B

- 65) The four basic factors that affect the price paid (interest rate) for money are 65) _____
- A) the supply of money saved, the demand for borrowed funds, Federal Reserve policy, and risk.
 - B) the demand for money saved, the supply for borrowed funds, Federal Reserve policy, and risk.
 - C) the supply of money saved, the supply for borrowed funds, Federal Reserve policy, and risk.
 - D) the demand for money saved, the demand for borrowed funds, Federal Reserve policy, and risk.

Answer: A

- 66) When the Federal Reserve increases the interest rate it charges banks to borrow reserves, it is 66) _____
controlling the money supply by using which of the following tools?
- A) reserve requirements ratio
 - B) risk
 - C) open market operations
 - D) discount rate
 - E) unable to tell with the information provided

Answer: D

- 67) When the Federal Reserve notifies banks that they must hold fifteen cents for every dollar that is 67) _____
deposited, it is controlling the money supply by using which of the following tools?
- A) risk
 - B) reserve requirements ratio
 - C) open market operations
 - D) discount rate
 - E) unable to tell with the information provided

Answer: B

- 68) You read an article in the paper that stated the Federal Reserve Bank sold \$500 million of 68) _____
government securities on Tuesday of last week. When the Fed did this they were controlling the
money supply by using which of the following tools?
- A) open market operations
 - B) reserve requirements ratio
 - C) discount rate
 - D) risk
 - E) unable to tell with the information provided

Answer: A

- 69) If the Fed sells \$10,000 in government securities, it will have the effect of 69) _____
- A) decreasing the money supply.
 - B) changing the money supply, but the direction is not clear.
 - C) increasing the money supply.
 - D) having no effect on the money supply.
 - E) unable to tell with the information provided.

Answer: A

- 70) If the Fed purchases \$10,000 in government securities it will have the effect of 70) _____
- A) decreasing the money supply.
 - B) changing the money supply, but the direction is not clear.
 - C) increasing the money supply.
 - D) having no effect on the money supply.
 - E) unable to tell with the information provided.

Answer: C

- 71) The probability that the desired return on an investment will be different from the desired return is defined as 71) _____
- A) reserve requirements ratio.
 - B) risk.
 - C) open market operations.
 - D) discount rate.
 - E) unable to tell with the information provided.

Answer: B

- 72) Jerry Jones has a Visa® card with the Very Big Interstate Bank. He notices that the interest rate charged on this card is 19.5% per annum. Jerry has been employed by the same company for 15 years and has excellent credit. The company has a credit union that will issue Jerry a Visa® card with an interest rate of 14.6%. The credit union offered Jerry this reduced rate because 72) _____
- A) all Visa® credit cards charge the same rate.
 - B) the credit union manager likes Jerry.
 - C) the unsystematic risk is lower for credit union members than it is for the general population.
 - D) the systematic risk is lower for credit union members than it is for the general population.

Answer: C