

CHAPTER 2

THE ENVIRONMENTS OF BUSINESS

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

1) Which of the following points are made in the opening case entitled "Air Canada's Challenging Environment: Competition, Economic Crisis, Fuel Prices, Volcanoes and More"?

- A) Skytrax named Air Canada as the worst airline in North America in 2010
- B) Air Canada continues to control the lion's share of the domestic market
- C) Most airlines purchase new planes on relatively short notice to get good deals on prices
- D) In 2009, the global commercial airline industry only broke even because of the recession
- E) All of these are correct

Answer: B

Diff: 3

Skill: Recall

Objective: 2.1

A-Heading: Organizational Boundaries and Environments

2) 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

Answer: B

Diff: 2

Skill: Recall

Objective: 2.1

A-Heading: Organizational Boundaries and Environments

3) 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

Answer: D

Diff: 2

Skill: Application

Objective: 2.1

A-Heading: Organizational Boundaries and Environments

4) The _____ consists of everything outside of an organization's boundaries that might affect it.

- A) gross domestic product
- B) enterprise resource
- C) annual deficit

D)national debt

E)external environment

Answer: E

Diff: 2

Skill: Recall

Objective: 2.1

A-Heading: Organizational Boundaries and Environments

5)A(n) _____ separates the organization from its environment.

A)organizational boundary

B)process boundary

C)enterprise resource

D)aggregate output

E)integration

Answer: A

Diff: 1

Skill: Recall

Objective: 2.1

A-Heading: Organizational Boundaries and Environments

6)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

Answer: E

Diff: 3

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

7)How might low inflation levels in the general economy affect a company like McDonald's?

A)McDonald's will pay much higher prices for supplies and will charge customers more for its products

B)McDonald's will pay higher prices for supplies and will charge customers more for its products

C)McDonald's will pay relatively constant prices for supplies, but will be unable to increase the price paid by customers

D)McDonald's will pay relatively constant prices for supplies and will charge customers more for its products

E)McDonald's will pay higher prices for supplies, but will be unable to increase the price paid by customers

Answer: C

Diff: 3

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

8)Agriculture efficiency has resulted in

- A) Canadians contributing more resources to farms.
- B) an increase in the number of people employed in the industry.
- C) Canadians needing more farms.
- D) a decrease in the number of people employed in the industry.
- E) none of these.

Answer: D

Diff: 2

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

9) Since the increase in unemployment in a small Atlantic Canadian town, retailers have noticed that sales have decreased. The retailers are being affected by which element of the external environment?

- A) Socio-cultural
- B) Economic
- C) Environmental
- D) Global
- E) Political-legal

Answer: B

Diff: 2

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

10) At one time, about _____ of the population of Canada was involved in producing the food that we needed; today less than _____ percent of the population works in agriculture.

- A) half; 0.5
- B) half; 2.5
- C) one-third; 5
- D) three-quarters; 2.5
- E) four-fifths; 3

Answer: B

Diff: 3

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

11) Agricultural production has _____ because _____.

- A) grown; we have increased total output in that sector
- B) increased; Canada imports more agricultural products
- C) declined; fewer Canadians are working in agriculture
- D) remained unchanged; there have been relatively few changes in agricultural technology
- E) increased; more people are involved in farming

Answer: A

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

12) 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.

Answer: E

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

13) The main measure of growth in the economy is

A) standard of living.

B) aggregate output

C) net output

D) the business cycle

E) industrial efficiency

Answer: B

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

14) 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 used in 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

Answer: D

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

15) _____ refers to the total quality and quantity of goods and services that a country's citizens can purchase with the currency used in their economic system.

A) Aggregate output

B) The national debt

C) Standard of living

D) The business cycle

E) The consumer price index

Answer: C

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

16) 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

Answer: E

Diff: 2
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

17) The pattern of short-term ups and downs in the economy is known as _____
A) recession.
B) the business cycle.
C) aggregate output.
D) gross domestic product.
E) economic growth.

Answer: B
Diff: 1
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

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

Answer: B
Diff: 2
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

19) Which of the following would *not* likely be a consequence of a recession?
A) Aggregate output declines
B) Producers will hire more employees
C) Unemployment will increase
D) Less labour will be needed to produce products
E) GDP will decrease

Answer: B
Diff: 2
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

20) In the business cycle, what phase follows "recession"?
A) Peak
B) Trough
C) Recovery
D) Expansion
E) It is not possible to say given the information that is provided

Answer: B
Diff: 2
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

21) Sales had been low at Stephen's Home Office Supplies for several months, but then business starting picking up again. Stephen's business went through which two phases of the business cycle?

- A) Recession and trough
- B) Peak and recession
- C) Trough and recovery
- D) Recovery and peak
- E) Any of these answers could be correct

Answer: C

Diff: 2

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

22) 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 the factors of production are located
- E) Total quantity of goods and services produced by an economic system

Answer: C

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

23) _____ refers to the total value of all goods and services produced within a given period by a national economy through domestic factors of production.

- A) The standard of living
- B) The gross domestic product
- C) The gross national product
- D) The aggregate output
- E) The balance of trade

Answer: B

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

24) _____ refers to 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) The gross domestic product
- B) The aggregate output
- C) The standard of living
- D) The balance of trade
- E) The gross national product

Answer: E

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

25) Which of the following would be *included* in the gross national product of

Canada?

- A) The wages paid to Peruvian workers producing coffee for a Brazilian company
- B) The profits earned by a Canadian-owned automobile plant in Brazil
- C) The profits earned by a Brazilian coffee company operating in Canada
- D) The profits earned by a Brazilian coffee company operating in Peru
- E) The wages paid to Brazilian workers producing coffee for sale in Canada

Answer: B

Diff: 3

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

26) Which of the following would be *included* in the gross national product of Brazil?

- A) The profits earned by a Brazilian coffee company operating in Canada
- B) The wages paid to Peruvian workers producing coffee for a Canadian company
- C) The profits earned by a Canadian coffee company operating in Peru
- D) The profits earned by a Canadian-owned automobile plant in Brazil
- E) The wages paid to Peruvian workers producing coffee for sale in Canada

Answer: A

Diff: 3

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

27) Which of the following would be *included* in the gross domestic product of Canada?

- A) The profits earned by a Brazilian coffee company operating in Canada
- B) The wages paid to Peruvian workers producing coffee for a Canadian company
- C) The profits earned by a Brazilian coffee company operating in Peru
- D) The wages paid to Brazilian workers producing coffee for sale in Canada
- E) The profits earned by a Canadian-owned automobile plant in Brazil

Answer: A

Diff: 3

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

28) The _____ is the growth rate of GDP adjusted for inflation and change in value of the country's currency.

- A) adjusted growth rate
- B) gross national product
- C) real growth rate
- D) per capita GDP
- E) real GDP

Answer: C

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

29) The _____ is the total gross domestic product divided by total population.

- A) gross national product
- B) GDP per capita
- C) real growth rate
- D) adjusted growth rate
- E) real GDP

Answer: B
Diff: 1
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

30) _____ is GDP measured in current dollars with all components valued at current prices.

- A) Per capita GDP
- B) Net GDP
- C) Adjusted GDP
- D) Nominal GDP
- E) Real GDP

Answer: D
Diff: 1
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

31) Which of the following best describes *nominal GDP*?

- A) Total quantity of goods and services produced by an economic system
- B) Total quantity and quality of goods and services that a country's citizens can purchase with the currency used in their economic system
- C) 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, with all components valued at current prices
- D) Total value of all goods and services produced within a given period by a national economy through domestic and international factors of production
- E) 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

Answer: C
Diff: 2
Skill: Application
Objective: 2.2
A-Heading: The Economic Environment

32) _____ is GDP calculated to account for changes in currency values and price changes.

- A) Nominal GDP
- B) Adjusted GDP
- C) Per capita GDP
- D) Real GDP
- E) Net GDP

Answer: D
Diff: 1
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

33) The principle of _____ states that exchange rates are set so that the prices of similar products in different countries are about the same.

- A) nominal GDP
- B) gross national product
- C) consumer price index
- D) equal prices
- E) purchasing power parity

Answer: E

Diff: 1
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

34) _____ is a measure of economic growth that compares how much a system produces with the resources needed to produce it.

- A) Purchasing power parity
- B) Stability
- C) Recession
- D) Inflation
- E) Productivity

Answer: E

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

35) A measure of economic growth that compares how much a system produces with the resources needed to produce it is

- A) organizational effectiveness.
- B) productivity.
- C) GDP.
- D) GNP.
- E) purchasing power parity.

Answer: B

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

36) Which of the following is accurate regarding purchasing power parity?

- A) It gives us a better idea of what people can actually buy with the financial resources they have
- B) It reflects the principle that exchange rates are set so that prices of similar products in different countries are unequal
- C) It does not really give a good sense of the standards of living around the world
- D) It reflects the principle that capitalism is a better system than communism
- E) None of these statements are accurate

Answer: A

Diff: 2

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

37) The _____ is the economic value of all the products that a country exports minus the economic value of imported products.

- A) real GDP
- B) gross national product
- C) nominal GDP
- D) balance of trade
- E) national debt

Answer: D

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

38) 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

Answer: E

Diff: 2

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

39) Which of the following best describes the term *gross national product*?

- 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) Total quantity and quality of goods and services that a country's citizens can purchase with the currency used in their economic system
- E) Conditions of the economic system in which an organization operates

Answer: B

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

40) Which statement is true with regard to the standard of living?

- A) It is dependent on the size of the city in which one lives
- B) It is comparable for every citizen in every country
- C) It is the amount and quality of goods and services that people can buy with their money
- D) It is improved when high-end stores stock expensive merchandise
- E) It is unaffected by business productivity

Answer: C

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

41) Canada's GDP in 2009 was about

- A) \$575 billion.
- B) \$1 trillion.
- C) \$1.6 trillion.
- D) \$2.7 trillion.
- E) \$8.7 trillion.

Answer: C

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

42) Productivity is

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

Answer: A

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

43) With regard to GDP, GNP, and GPI, which of the following is correct?

- A) The profits earned by a Canadian company abroad are included in GNP, but not in GDP
- B) Profits earned by foreign firms in Canada are included in GDP
- C) GDP increased as a result of the Exxon Valdez oil spill, but GPI decreased because of that spill
- D) GDP has been increasing for many years, but GPI has been decreasing since the 1970s
- E) They all measure essentially the same thing

Answer: A

Diff: 3

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

44) If GDP is going up, the nation is experiencing

- A) inflation.
- B) growth.
- C) an increase in demand.
- D) a recession.
- E) it is not possible to tell given the information provided.

Answer: B

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

45) _____ 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) The standard of living
- B) Productivity
- C) Purchasing power parity
- D) GNP
- E) GDP

Answer: D

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

46) Total GDP divided by the population of a country is

- A) GNP.
- B) nominal GDP.
- C) real GDP.
- D) GDP per capita.
- E) aggregate demand.

Answer: D

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

47) Canada's GDP per capita is approximately

- A) \$15,000.
- B) \$31,000.
- C) \$42,000.
- D) \$55,000.
- E) \$66,000.

Answer: B

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

48) _____ has been proposed as a more realistic measure to assess economic activity. It takes into consideration activities that harm the environment or quality of life and gives these things a negative value.

- A) Purchasing power parity
- B) GPI
- C) GDP
- D) GNP
- E) GRE

Answer: B

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

49) Purchasing power parity gives us a good idea of

- A) what people are buying outside their own country while on vacation or while doing international business.
- B) what people can actually buy with the financial resources allocated to them by their economic system.
- C) what people would like to buy with the financial resources in their economic system.
- D) purchasing trends across the globe.
- E) average annual income.

Answer: B

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

50) 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

Answer: C

Diff: 3

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

51) Paul owns a Canadian shipping company that generates profits as a result of business activities in Brazil. These profits are included in ____ in Brazil.

- A) GDP
- B) national employment
- C) productivity
- D) GNP
- E) GPI

Answer: A

Diff: 3

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

52) 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

- A) Net National Product.
- B) Net National Income.
- C) Net National Profit.
- D) Gross National Product.
- E) Gross Domestic Product.

Answer: D

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

53) Gross National Product is

- A) the revenue from goods and services produced within Canada in one year.
- B) the value of all goods and services produced by a country regardless of where the factors of production are located.
- C) the revenue from goods and services produced in one year by businesses in Canada and by Canadians working outside of Canada.
- D) measured by the price of a basket of goods.
- E) the value of all goods and services produced by businesses in Canada in one year.

Answer: B

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

54) 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.

Answer: E
Diff: 1
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

55) If we know that it takes, on average, one Canadian worker and one Canadian dollar to make 10 soccer balls in an 8 hour work day, we can measure Canada's

- _____.
- A) balance of trade
 - B) GDP
 - C) productivity
 - D) GNP
 - E) GNP and productivity

Answer: C
Diff: 1
Skill: Application
Objective: 2.2
A-Heading: The Economic Environment

56) Which of the following statements is correct?

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

Answer: C
Diff: 3
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

57) 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.

Answer: A
Diff: 1
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

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

- A) depressed
- B) negative
- C) real
- D) nominal
- E) positive

Answer: E
Diff: 1
Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

59) Which of the following is the *best* description of the balance of trade?

- A) The total of a nation's revenues from income taxes minus its expenditures on goods and services
- B) Changes in currency values and price changes
- C) The profitability of business firms that are exporting goods and services
- D) The total of a nation's exports minus its imports
- E) The total value of all services provided to foreigners during a one year time period

Answer: D

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

60) 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

Answer: C

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

61) Canada usually has a _____ balance of trade. It is therefore a _____ nation rather than a _____ nation.

- A) positive; creditor; debtor
- B) negative; debtor; creditor
- C) positive; debtor; creditor
- D) negative; creditor; debtor
- E) none of the above

Answer: A

Diff: 3

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

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

- A) nominal
- B) depressed
- C) positive
- D) negative
- E) beneficial

Answer: D

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

63) A negative balance of trade can also be called a

- A) trade shortage.

- B) trade deficit.
- C) trade surplus.
- D) trade deficiency.
- E) national debt.

Answer: B

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

64) A nation's _____ is the total amount of money that the government owes its creditors.

- A) trade deficit
- B) national debt
- C) trade deficiency
- D) trade shortage
- E) trade surplus

Answer: B

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

65) Taiwan has a positive balance of trade. This means that

- A) money is flowing into the country to pay for imported goods.
- B) the total amount of exported goods has increased from the previous year.
- C) the total amount of imported goods has decreased from the previous year.
- D) the nation is exporting more than it imports from other nations.
- E) all of these are correct.

Answer: D

Diff: 2

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

66) Which of the following is correct with regard to budget deficits and the national debt?

- A) A country's national debt is the amount of money its government owes the United States
- B) A budget deficit occurs when income tax revenue is less than interest payments on the national debt
- C) Canada is the only industrialized country in the world that has a budget surplus
- D) Until recently, Canada was the only industrialized country that had an annual budget surplus
- E) All of these statements are correct

Answer: D

Diff: 3

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

67) The national debt refers to

- A) the total amount of money that Canada owes to its creditors.
- B) the ratio of Canada's exports to its imports.
- C) the result of government spending more in a year than the value of GDP.
- D) the excess amount of taxes over what the government spends in one year.
- E) the amount of taxes the government collects in one year.

Answer: A
Diff: 1
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

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

Answer: B
Diff: 2
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

69) From Confederation (1867) to 1981, Canada's total accumulated debt was only _____, but in the period between 1981-1994, annual deficits were in the _____ range.

A) \$78.5 billion; \$10 to \$20 billion
B) \$57.8 billion; \$100 to \$125 billion
C) \$40 billion; \$20 to \$40 billion
D) \$85.7 billion; \$20 to \$40 billion
E) none of these numbers are correct

Answer: D
Diff: 3
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

70) The more money the Canadian government borrows (by issuing savings bonds), the _____ money is available for private borrowing and investment that increases _____.

A) more; productivity
B) less; productivity
C) more; purchasing power parity
D) less; GDP
E) more; GDP

Answer: B
Diff: 3
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

71) If Canada fell into a depression, the Bank of Canada would most likely

A) raise interest rates.
B) leave interest rates alone.
C) lower interest rates.
D) it is not possible to tell with the information given.
E) increase gasoline taxes.

Answer: C
Diff: 2
Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

72) With respect to inflation and deflation, which is correct?

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

Answer: C

Diff: 3

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

73) What are three factors that threaten stability?

- A) Purchasing power parity, productivity, and inflation
- B) Productivity, inflation, and deflation
- C) Purchasing power parity, inflation, and deflation
- D) Inflation, deflation, and unemployment
- E) Productivity, unemployment, and inflation

Answer: D

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

74) _____ is the economic condition characterized by widespread increased prices throughout an economic system.

- A) Stability
- B) Deflation
- C) Unemployment
- D) Stagflation
- E) Inflation

Answer: E

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

75) Which of the following statements about inflation is correct?

- A) Inflation increases the purchasing power of consumer dollars
- B) The consumer price index is one way to measure inflation
- C) Inflation occurs when people have more money to spend as the quantity of goods available increases
- D) Inflation occurs when the amount of money taken out of the economy exceeds the amount of money put into the economy
- E) Inflation and deflation are really almost synonymous in practice

Answer: B

Diff: 3

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

76) The _____ is a measure of the prices of a typical "basket of products"

purchased by consumers.
A) consumer price index
B) national debt
C) balance of trade
D) gross national product
E) real GDP

Answer: A

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

77) Deflation refers to

A) a period of falling prices.

B) the occurrence of price increases throughout the economic system.

C) the condition in an economic system in which the amount of money available is greater than the amount of goods produced.

D) the measure of prices in urban areas.

E) the amount of government spending greater than the taxes collected in one year.

Answer: A

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

78) 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 of work because of a downturn in the business cycle.

A) seasonal; structural

B) structural; seasonal

C) frictional; cyclical

D) cyclical; frictional

E) seasonal; cyclical

Answer: C

Diff: 3

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

79) Which of the following is correct regarding unemployment rates in Canada?

A) Unemployment rates have been fairly stable at about 6 percent for the last 30 years

B) Unemployment rates have been fairly stable at about 2 percent for the last 30 years

C) Unemployment rates for women have been slightly lower than unemployment rates for men during the last 10 years

D) The government did not keep track of unemployment rates for women until the 1980s

E) The unemployment rate for women is about half the unemployment rate for men

Answer: C

Diff: 3

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

80) 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.

- A) frictional
- B) seasonal
- C) cyclical
- D) structural
- E) none of these

Answer: D

Diff: 2

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

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

Answer: E

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

- 82) Low unemployment rates can result in

- A) decreased prices for products.
- B) decreases in sales revenue.
- C) decreasing wage rates.
- D) a shortage of labour.
- E) increased profit margins.

Answer: D

Diff: 3

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

- 83) _____ unemployment results from recessions or depression, while _____ unemployment results from people being unemployed because they lack the right skills.

- A) Cyclical; seasonal
- B) Frictional; seasonal
- C) Seasonal; structural
- D) Cyclical; structural
- E) Structural; seasonal

Answer: D

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

- 84) _____ unemployment results because workers lack the right skills, while _____ unemployment results when people are temporarily out of work while they are looking for a new job.

- A) Cyclical; seasonal
- B) Frictional; seasonal
- C) Seasonal; structural
- D) Cyclical; structural
- E) Structural; frictional

Answer: E
Diff: 2
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

85) A computer programmer who has just quit her job, but who will find a new one soon is an example of _____ unemployment.

- A) seasonal
- B) frictional
- C) cyclical
- D) structural
- E) none of these

Answer: B
Diff: 2
Skill: Application
Objective: 2.2
A-Heading: The Economic Environment

86) Sam, an audiologist, lost his job two years ago and still hasn't found work. There is just no market for audiologists at this time. Sam is experiencing

- A) structural unemployment.
- B) full unemployment.
- C) cyclical unemployment.
- D) bad luck.
- E) frictional unemployment.

Answer: A
Diff: 2
Skill: Application
Objective: 2.2
A-Heading: The Economic Environment

87) Which term is used to describe the type of unemployment that occurs when reduced economic activity puts people out of work?

- A) Frictional unemployment
- B) Cyclical unemployment
- C) Structural unemployment
- D) Annual unemployment
- E) Seasonal unemployment

Answer: B
Diff: 1
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

88) The chance that a society can actually achieve full employment is _____ percent.

- A) 10
- B) 75
- C) 45
- D) 1
- E) 0

Answer: E
Diff: 1
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

89) Don is unemployed because of a downturn in economic activity; this is an example of _____ unemployment.

- A) frictional
- B) seasonal
- C) structural
- D) cyclical
- E) none of these

Answer: D

Diff: 2

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

90) _____ policy involves the collection and spending of government revenues, while _____ policy focuses on controlling the size of the nation's money supply.

- A) productivity; inflation
- B) taxation policy; monetary policy
- C) monetary policy; fiscal policy
- D) fiscal policy; monetary policy
- E) national debt; annual deficit

Answer: D

Diff: 3

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

91) If you were the Minister of Finance, taking care of fiscal policy, which one of the following could you implement?

- A) A tax increase
- B) A cut in social security programs
- C) An increase in federal transfer payments
- D) An increase in spending to military bases
- E) All of these ideas could be implemented

Answer: E

Diff: 3

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

92) Higher interest rates tend to lead to _____ consumer and business spending, while lower interest rates tend to lead to _____ spending by consumers and businesses.

- A) higher; lower
- B) lower; lower
- C) higher; higher
- D) lower; higher
- E) it is not possible to tell from the information given

Answer: D

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

93) What effect do higher interest rates have on consumer spending?

- A) Consumer spending increases as people try to quickly buy goods before rates go even higher
- B) Consumer spending decreases immediately, but then rises sharply after consumers get used to the new higher interest rates
- C) Consumer spending is not impacted by changes in interest rates
- D) Consumer spending decreases
- E) It is not possible to tell from the information given

Answer: D

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

94) The government manages the collection and spending of its revenues through _____ policies.

- A) economic
- B) monetary
- C) inflation
- D) fiscal
- E) revenue

Answer: D

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

95) The government controls the size of the money supply through _____ policies.

- A) revenue
- B) monetary
- C) inflation
- D) economic
- E) fiscal

Answer: B

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

96) Taken together, fiscal policy and monetary policy make up _____ policy.

- A) recession
- B) information
- C) economic
- D) inflation
- E) stabilization

Answer: E

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

97) _____ includes all the ways by which firms create value for their constituents.

- A) Marketing
- B) Outsourcing
- C) Processing
- D) Production
- E) Technology

Answer: E
Diff: 2
Skill: Recall
Objective: 2.3
A-Heading: The Technological Environment

98) _____ 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

Answer: A

Diff: 1

Skill: Recall

Objective: 2.3

A-Heading: The Technological Environment

99) 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

Answer: A

Diff: 2

Skill: Application

Objective: 2.3

A-Heading: The Technological Environment

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

- A) deflationary and inflationary.
- B) public and economical.
- C) college and university.
- D) pure and theoretical.
- E) basic and applied.

Answer: E

Diff: 2

Skill: Recall

Objective: 2.3

A-Heading: The Technological Environment

101) _____ improvements and _____ in general are important contributors to the economic development of a country.

- A) Research; development
- B) Development; innovation
- C) Technological; innovation
- D) Research; innovation
- E) none of these is correct

Answer: C

Diff: 2

Skill: Recall

Objective: 2.3

A-Heading: The Technological Environment

102) R & D spending in Canada in 2009 totalled about _____ billion.

- A) \$2
- B) \$6
- C) \$10
- D) \$16
- E) \$22

Answer: D

Diff: 2

Skill: Recall

Objective: 2.3

A-Heading: The Technological Environment

103) In 2009, the Canadian private sector accounted for about _____ percent of R&D spending, while the government accounted for about _____ percent.

- A) 25; 10
- B) 10; 40
- C) 55; 10
- D) 25; 30
- E) 78; 20

Answer: C

Diff: 3

Skill: Recall

Objective: 2.3

A-Heading: The Technological Environment

104) In 2009, Canadian universities accounted for about _____ percent of R&D spending.

- A) 15
- B) 25
- C) 34
- D) 45
- E) 55

Answer: C

Diff: 3

Skill: Recall

Objective: 2.3

A-Heading: The Technological Environment

105) Which of the following is correct with respect to R & D?

- A) R & D focuses on physical products, not services
- B) 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
- C) Applied R & D involves improving knowledge in an area without regard to how it might be useful in the marketplace
- D) R & D intensity refers to R & D spending as a percentage of a company's sales revenues
- E) All of these statements are correct

Answer: D

Diff: 3

Skill: Recall

Objective: 2.3

A-Heading: The Technological Environment

106)As a proportion of GDP, Canada's level of R&D _____ that of other industrialized countries.

- A)lags far behind
- B)lags behind
- C)is about the same as
- D)is ahead of
- E)is far ahead of

Answer: B

Diff: 2

Skill: Recall

Objective: 2.3

A-Heading: The Technological Environment

107)Basic research and development describes

- A)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.
- B)those activities that do not create value for the firm.
- C)the process involved in getting a new technology out of the lab and into the marketplace.
- D)improving knowledge in an area without a primary focus on whether any discoveries that might occur are immediately marketable.
- E)those activities that increase a company's revenues.

Answer: D

Diff: 2

Skill: Recall

Objective: 2.3

A-Heading: The Technological Environment

108)Which of the following points is made in the box entitled "The Hydrogen Fuel Cell?"

- A)The development of the hydrogen fuel cell has proceeded much more quickly than originally thought possible
- B)The hydrogen fuel cell will be installed in 10 million automobiles by 2012
- C)Initial enthusiasm about the hydrogen fuel cell has given way to skepticism
- D)The major automobile companies have never shown any interest in the hydrogen fuel cell
- E)The primary reason the hydrogen fuel cell has not been installed in many cars is that it does not consistently work

Answer: C

Diff: 3

Skill: Recall

Objective: 2.3

A-Heading: The Technological Environment

109)_____ is a large-scale information system for organizing and managing a firm's processes across product line, departments, and geographic locations.

- A)Outsourcing
- B)Viral marketing
- C)Vertical integration
- D)Business process management
- E)Enterprise resource planning

Answer: E

Diff: 1

Skill: Recall

Objective: 2.3

A-Heading: The Technological Environment

110) A(n) _____ system integrates back-office and front office processes.

- A) viral marketing
- B) outsourcing
- C) application process management
- D) vertical integration
- E) enterprise resource planning

Answer: E

Diff: 2

Skill: Recall

Objective: 2.3

A-Heading: The Technological Environment

111) _____ systems integrate human resource, data analysis, sales and marketing, customer service, supply chain, accounting and finance, and manufacturing systems.

- A) Enterprise resource planning
- B) Vertical integration
- C) Decision support
- D) Expert
- E) Organizational integration

Answer: A

Diff: 2

Skill: Recall

Objective: 2.3

A-Heading: The Technological Environment

112) The political-legal environment describes

- A) the relationship between business and government.
- B) the customs, values, attitudes, and demographic characteristics of the society in which an organization functions.
- C) the intensity of the competition in an industry.
- D) the relationship between international and domestic corporations.
- E) the relationship between government and unions.

Answer: A

Diff: 2

Skill: Recall

Objective: 2.4

A-Heading: The Political-Legal Environment

113) Which of the following points is made in the boxed insert entitled "Nova Scotia's Golden Nectar: Glen Breton Rare?"

- A) The product called Glen Breton Rare Single Malt Whisky, produced by Glenora Distilleries in Nova Scotia, has not been well received by consumers, and the company is in financial difficulty
- B) The company is involved in a dispute with the Scotch Whisky Association
- C) Increased demand in Europe and Asia means that some single malt whisky distillers have found their products in short supply
- D) Glenora has never experienced cash flow problems because of good financial planning
- E) Use of the word "scotch" is only allowed for distilleries in Europe, not Canada

Answer: B

Diff: 2

Skill: Recall

Objective: 2.4

A-Heading: The Political-Legal Environment

114) Ethical conduct and social responsibility are critical elements of which environment?

- A) Global
- B) Political-legal
- C) Industry
- D) Socio-cultural
- E) Economic

Answer: D

Diff: 2

Skill: Recall

Objective: 2.5

A-Heading: The Socio-Cultural Environment

115) The socio-cultural environment describes

- A) the relationship between government and unions.
- B) the relationship between business and government.
- C) the relationship between international and domestic corporations.
- D) the customs, values, attitudes, and demographic characteristics of the society in which an organization functions.
- E) the intensity of the competition in an industry.

Answer: D

Diff: 2

Skill: Recall

Objective: 2.5

A-Heading: The Socio-Cultural Environment

116) Which of the following is *not* an example of a factor in the socio-cultural environment?

- A) Prepackaged chili is more popular in southwestern U.S. states than in the U.S. northeast.
- B) Consumers in China perceive bicycles primarily as a mode of transportation, while consumers in Canada perceive bicycles as recreational items.
- C) Companies are more likely to set up foreign operations in countries with stable political and economic systems.
- D) McDonald's has added salads and other low fat foods to its menu.
- E) Many people in the Middle East are unwilling to work in food service operations.

Answer: C

Diff: 3

Skill: Application

Objective: 2.5

A-Heading: The Socio-Cultural Environment

117) 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 their external environment.

- A) socio-cultural
- B) technological
- C) global
- D) political-legal
- E) economic

Answer: A

Diff: 2

Skill: Application

Objective: 2.5

A-Heading: The Socio-Cultural Environment

118) Companies that continue to act unethically (especially in the area of accounting) will most likely

- A) have their shares appreciate in value because shareholders like aggressive accounting practices which help increase the price of their stock.
- B) have their shares depreciate in value as shareholders become leery of aggressive accounting practices which distort a company's real financial condition.
- C) never be able to sell shares of stock to the public.
- D) find that their share price will be unaffected by this practice.
- E) no pattern is evident.

Answer: B

Diff: 1

Skill: Recall

Objective: 2.5

A-Heading: The Socio-Cultural Environment

119) 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?

- A) Technological
- B) Global
- C) Business
- D) Socio-cultural
- E) Economic

Answer: D

Diff: 2

Skill: Application

Objective: 2.5

A-Heading: The Socio-Cultural Environment

120) Which of the following *best* describes the breadth of socio-cultural environment factors?

- A) Customs, attitudes, and values
- B) Demographic characteristics, customs, and values
- C) Values, attitudes, customs, and demographic characteristics
- D) Customs, values, religious beliefs, and consumer wealth
- E) Values, religious beliefs, and consumer wealth

Answer: C

Diff: 2

Skill: Recall

Objective: 2.5

A-Heading: The Socio-Cultural Environment

121) One of the most popular tools to analyze competitive situations in an industry is Michael Porter's model. The model includes

- A) substitute products.
- B) suppliers and buyers.
- C) threat of potential entrants.
- D) rivalry among existing competitors.
- E) all of these.

Answer: E

Diff: 2

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

122) Which of the factors in Porter's five forces model is generally most important?

- A) Threat of potential entrants
- B) Rivalry among existing competitors
- C) Threat of substitutes

- D) Suppliers
- E) None of these

Answer: E

Diff: 2

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

123) The rivalry between CAs, CGAs and CMAs in Canada is _____, and the firms have responded by _____.

- A) mild; working together cooperatively
- B) intense; cutting costs
- C) non-existent; merging
- D) moderate; advertising their respective advantages
- E) none of the above

Answer: B

Diff: 3

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

124) 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?

- A) Rivalry among existing competitors
- B) Threat of potential entrants
- C) Suppliers
- D) Buyers
- E) Substitutes

Answer: B

Diff: 2

Skill: Application

Objective: 2.6

A-Heading: The Business Environment

125) _____ is often cited as a buyer that puts tremendous pressure on its suppliers.

- A) The Bay
- B) Canadian Tire
- C) Target
- D) Wal-Mart
- E) Costco

Answer: D

Diff: 1

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

126) Some industries are relatively easy to enter, but automobile manufacturing is not because

- A) the market is saturated.
- B) it is very capital-intensive.
- C) it is a foreign market.
- D) it is too labour intensive.
- E) none of these are correct.

Answer: B

Diff: 2

Skill: Recall
Objective: 2.6
A-Heading: The Business Environment

127) Porter's five forces model includes all of the following *except*

- A) substitutes.
- B) threat of potential entrants.
- C) buyers.
- D) suppliers.
- E) threat of replacement products.

Answer: E

Diff: 1

Skill: Recall
Objective: 2.6
A-Heading: The Business Environment

128) _____ refers to the skills and resources with which the company competes best and creates the most value for its owners.

- A) Labour
- B) Outsourcing
- C) Core competencies
- D) Viral marketing
- E) Business process management

Answer: C

Diff: 1

Skill: Recall
Objective: 2.6
A-Heading: The Business Environment

129) 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

Answer: B

Diff: 1

Skill: Recall
Objective: 2.6
A-Heading: The Business Environment

130) Most successful firms are getting leaner by focusing on their _____, the skills and resources with which they compete best and create the most value for owners.

- A) viral marketing
- B) core competencies
- C) processes
- D) business process management
- E) political-legal environment

Answer: B

Diff: 1

Skill: Recall
Objective: 2.6
A-Heading: The Business Environment

131) A C-Suite survey found that the three most important issues facing Canadian businesses are

- A) economic growth, labour shortages, and the environment.
- B) labour shortages, the environment, and declining consumer spending.
- C) declining consumer spending, the value of the Canadian dollar, and the balance of trade.
- D) the balance of trade, the value of the dollar, and the environment.
- E) the environment, a skilled labour shortage, and the value of the Canadian dollar.

Answer: E
Diff: 3
Skill: Recall
Objective: 2.6
A-Heading: The Business Environment

132) _____ is the strategy of paying suppliers and distributors to perform certain business processes or to provide needed materials or resources.

- A) Enterprise management
- B) Outsourcing
- C) Alliance
- D) Disruption
- E) Core competency

Answer: B
Diff: 1
Skill: Recall
Objective: 2.6
A-Heading: The Business Environment

133) Which of the following is the best definition of *outsourcing*?

- A) Any activity that adds value to some input by transforming it into an output for an internal or external customer
- B) An approach by which firms move away from department-oriented organization and toward process-oriented team structures that cut across old departmental boundaries
- C) The strategy of paying suppliers and distributors to perform certain business processes or to provide needed materials and resources
- 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

Answer: C
Diff: 2
Skill: Recall
Objective: 2.6
A-Heading: The Business Environment

134) Many firms use _____ to provide cafeteria operations for their customers.

- A) enterprise management
- B) disruption management
- C) outsourcing
- D) core competencies
- E) vertical integration

Answer: C
Diff: 2
Skill: Recall
Objective: 2.6
A-Heading: The Business Environment

135) What is outsourcing?

- A) Using the skills of current employees to create better value for customers
- B) Finding new sources of higher quality supplies that are out of the country
- C) Paying suppliers and distributors to perform certain business functions
- D) Sending employees overseas so they will work more cheaply
- E) Bringing overseas workers to Canada

Answer: C

Diff: 2

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

136) _____ uses word of mouth and the Internet to market products.

- A) Virtual marketing
- B) Compressed channel marketing
- C) Viral marketing
- D) Internet marketing
- E) None of these

Answer: C

Diff: 1

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

137) When the Organic Trade Association partnered with Free Range Graphics to produce a 5-minute on-line spoof of the latest Star Wars movie, this was an example of

- A) a strategic alliance.
- B) viral marketing.
- C) outsourcing.
- D) business process management.
- E) none of these.

Answer: B

Diff: 1

Skill: Application

Objective: 2.6

A-Heading: The Business Environment

138) Viral marketing can result in _____ when compared to traditional marketing.

- A) faster consumer awareness and a wider reach
- B) slower consumer awareness and a wider reach
- C) quicker consumer awareness and higher costs
- D) lower rates of recall and slower consumer awareness
- E) lower rates of recall and higher costs

Answer: A

Diff: 2

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

139) 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 team 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

Answer: E

Diff: 2

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

140) _____ 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

Answer: E

Diff: 2

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

141)An approach which moves from a department orientated organization to a process team orientation is called

A)process improvement.

B)business process management.

C)six sigma.

D)outsourcing.

E)virtual restructuring.

Answer: B

Diff: 2

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

142)Which of the following is correct with regard to business process management?

A)It is more effective than outsourcing

B)It means moving away from organizing around departments

C)It means more effective decision making, but it is somewhat slower

D)It means dismantling the formerly popular work teams and placing more emphasis on individual performance

E)It is as effective as outsourcing, but more costly

Answer: B

Diff: 2

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

143) _____ is the approach by which firms move away from department-oriented organizations and toward process-oriented team structures.

A)Business process management

B)Team management

C)Viral marketing

D)Departmentalization

E)None of these

Answer: A

Diff: 2

Skill: Recall
Objective: 2.6
A-Heading: The Business Environment

144) Firms are moving away from _____ structures and embracing _____ structures.

- A) process; department
- B) process; team
- C) department; team
- D) team; process
- E) team; department

Answer: C

Diff: 2

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

145) 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 team 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

Answer: A

Diff: 2

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

146) A(n) _____ is any activity that adds value to input by transforming it into an output for a customer.

- A) enterprise
- B) virus
- C) process
- D) procedure
- E) competency

Answer: C

Diff: 1

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

147) Which of the following is the best definition of *vertical merger*?

- A) A strategy in which one of the companies in the merger is a supplier or customer of the other
- B) An approach by which firms move away from department-oriented organization and toward process-oriented team structures that cut across old departmental boundaries
- C) The strategy of using the Internet and word-of-mouth marketing to spread product information
- 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 paying suppliers and distributors to perform certain business

processes or to provide needed materials and resources

Answer: A

Diff: 2

Skill: Recall

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

148)A(n) _____ is a merger to two firms that have previously had a buyer seller relationship.

- A)hostile take over
- B)conglomerate merger
- C)friendly take over
- D)vertical merger
- E)enterprise merger

Answer: D

Diff: 1

Skill: Recall

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

149)A company that cuts and packages paper for photocopiers and printers that merges with a paper mill to reduce the risk of paper shortages, using a

- A)poison pill merger.
- B)enterprise merger.
- C)friendly take over bid.
- D)hostile take over.
- E)vertical merger.

Answer: E

Diff: 2

Skill: Recall

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

150)An acquisition takes place when

- A)two firms who previously have been buyer and seller merge.
- B)two firms join together to form a new entity.
- C)one firm consolidates with another.
- D)one firm simply buys another.
- E)management adopts a defence to make its firm less attractive.

Answer: D

Diff: 2

Skill: Recall

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

151)When one company sells part of its existing business operations to another company, this is called

- A)outsourcing.
- B)intense competition.
- C)a spinoff.
- D)a divestiture.
- E)a strategic alliance.

Answer: D

Diff: 2

Skill: Recall

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

152)When Mars Inc. bought Wm. Wrigley Jr. Co. for \$23 billion, this was an example of _____, but when Canadian National Railways and the Illinois Central Railroad combined, this was an example of _____.

- A)a hostile takeover; friendly takeover
- B)an acquisition; a merger
- C)a merger; an acquisition
- D)a poison pill; a divestiture
- E)a spinoff; a divestiture

Answer: B

Diff: 3

Skill: Application

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

153)If Shirley's Subs Inc. purchased Tony's Car Repair Inc., this would be _____.

- A)a horizontal merger
- B)a conglomerate merger
- C)a spinoff
- D)a vertical merger
- E)a divestiture

Answer: B

Diff: 1

Skill: Application

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

154)If Toyota Motors purchased Ruscombe Muffler, a small retail muffler business, the purchase would be

- A)a horizontal merger.
- B)a conglomerate merger.
- C)a spinoff.
- D)a vertical merger.
- E)a divestiture.

Answer: D

Diff: 2

Skill: Application

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

155)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 _____.

- A)reverse merger
- B)joint venture
- C)vertical merger
- D)friendly takeover
- E)horizontal merger

Answer: E

Diff: 2

Skill: Application

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

156)A corporation may overcome the resistance of a takeover target by implementing which of the following actions?

- A) Buy the target company's preferred stock instead of its common stock
- B) Reduce the price offered for the target company's stock
- C) Threaten to fire the officers of the target company
- D) Buy more of the target company's stock
- E) File a lawsuit

Answer: D

Diff: 2

Skill: Application

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

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

- A) two firms in completely unrelated businesses merge.
- B) two firms agree to join together.
- 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.
- D) the organization will buy back their own stock from an investor who threatened a hostile takeover.
- E) the two firms were direct competitors before the merger and now will not compete with each other after the merger.

Answer: C

Diff: 2

Skill: Application

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

158) 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) a stock buyback.
- B) a conglomerate merger.
- C) greenmail.
- D) a poison pill.
- E) a vertical merger.

Answer: D

Diff: 1

Skill: Application

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

159) 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)

- A) hostile takeover.
- B) acquisition.
- C) spinoff.
- D) merger.
- E) divestiture.

Answer: C

Diff: 2

Skill: Application

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

160) The primary objective of an ESOP is to

- A) keep management from making bad decisions.
- B) protect against takeovers.

- C) prevent worker strikes.
- D) provide workers with financial security.
- E) motivate workers to work harder.

Answer: E

Diff: 2

Skill: Application

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

161) Regarding employee-owned corporations, the survey by Western Compensation & Benefits found that

- A) employee-owned corporations have been concentrated in the forest products sector.
- B) the majority of companies that have adopted ESOPs have experienced improvements in both sales and profits.
- C) the popularity of employee-owned corporations is decreasing.
- D) it was originally thought that ESOPs would give employees an increased sense of belonging in the company, but that has not happened.
- E) all of the statements are accurate.

Answer: B

Diff: 3

Skill: Recall

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

162) Unilever is _____ to Lever Brothers, Lipton, and Chesebrough Ponds.

- A) subsidiary
- B) a parent company
- C) a spinoff
- D) an employee stock ownership plan
- E) a partner

Answer: B

Diff: 2

Skill: Recall

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

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

163) The external environment has a limited impact on the success or failure of most organizations.

Answer: False

Diff: 2

Skill: Recall

Objective: 2.1

A-Heading: Organizational Boundaries and Environments

164) 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.

Answer: True

Diff: 2

Skill: Recall

Objective: 2.1

A-Heading: Organizational Boundaries and Environments

165)An organizational boundary is that which separates the organization from its environment.

Answer: True

Diff: 1

Skill: Recall

Objective: 2.1

A-Heading: Organizational Boundaries and Environments

166)Traditionally, organizational boundaries were formerly clear-cut and easy to identify, but they have now become much more complex.

Answer: True

Diff: 1

Skill: Recall

Objective: 2.1

A-Heading: Organizational Boundaries and Environments

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

Answer: True

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

168)Low inflation means that McDonald's will pay lower prices for its supplies as time passes.

Answer: False

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

169)Low inflation will allow McDonald's to increase the prices it charges consumers.

Answer: False

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

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

Answer: False

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

171)Aggregate output refers to the pattern of short-term ups and downs in the economy.

Answer: False

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

172)The business cycle consists of four phases: peak, recession, trough, and recovery.

Answer: True

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

173)GNP is the total value of all the goods and services produced by an economic system during a five-year period.

Answer: False

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

174)Canada's GDP in 2009 was approximately \$6.4 trillion.

Answer: False

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

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

Answer: True

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

176)An increase in aggregate output will typically result in a recession.

Answer: False

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

177)Profits from a Canadian-owned automobile factory in Brazil are included in the GNP of Brazil.

Answer: False

Diff: 2

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

178)Profits from a Canadian-owned automobile factory in Brazil are included in the GDP of Brazil.

Answer: True

Diff: 2

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

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

Answer: True

Diff: 1
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

180) 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.
Answer: True
Diff: 1
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

181) GNP is the preferred method of calculating national income and output.
Answer: False
Diff: 2
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

182) 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.
Answer: True
Diff: 2
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

183) Per capita GDP for a country is calculated by dividing the total GDP by its population.
Answer: True
Diff: 2
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

184) Nominal GDP is the gross domestic product measured in current dollars or with all components valued at current prices.
Answer: True
Diff: 1
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

185) Nominal GDP is more important than real GDP
Answer: False
Diff: 1
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

186) 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.
Answer: True
Diff: 1
Skill: Recall
Objective: 2.2

A-Heading: The Economic Environment

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

Answer: False

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

188) According to OECD rankings, Canada is in 4th place with a productivity ratio of 96.4 compared to the U.S.

Answer: False

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

189) The standard of living in a country improves only through increases in the money supply.

Answer: False

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

190) The standard of living improves only through increases in productivity.

Answer: True

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

191) A positive balance of trade results when imports exceed exports.

Answer: False

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

192) A negative balance of trade results when a country imports more than it exports.

Answer: True

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

193) Canada is usually a creditor nation, while the U.S. is a consistent debtor nation.

Answer: True

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

194) In 2009, Canada had a trade deficit of almost \$5 billion.

Answer: True

Diff: 2
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

195) During the period 1997-2008, Canada was the only industrialized country that had annual budget surpluses.

Answer: True
Diff: 2
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

196) Canada's national debt is about \$680 billion.

Answer: True
Diff: 2
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

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

Answer: True
Diff: 2
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

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

Answer: True
Diff: 2
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

199) One consequence of achieving the economic goal of stability is that wages change very little.

Answer: True
Diff: 1
Skill: Application
Objective: 2.2
A-Heading: The Economic Environment

200) Inflation applies to only specific industries.

Answer: False
Diff: 1
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

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

Answer: False
Diff: 1
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

202) Inflation increases the purchasing power of your money.

Answer: False

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

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

Answer: True

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

204) During 2008, the annual rate of inflation in Zimbabwe was 40 million percent.

Answer: True

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

205) Deflation is generally a positive thing for consumers because prices decline and consumers' dollars go further.

Answer: False

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

206) The percent of consumer spending on necessities like food and housing has declined during the past 40 years.

Answer: True

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

207) The "basket of goods" included in the Consumer Price Index has remained the same for many years so the government can make accurate year-to-year comparisons about the rate of inflation.

Answer: False

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

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

Answer: False

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

209) Ted has not worked in 5 years and has given up finding a job. He is considered unemployed.

Answer: False

Diff: 2

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

210) Full employment is impossible.

Answer: True

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

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

Answer: False

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

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

Answer: True

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

213) When unemployment is low, employers will tend to reduce the prices of their products.

Answer: False

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

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

Answer: True

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

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

Answer: True

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

216) Frictional unemployment is more important than cyclical unemployment.

Answer: False

Diff: 2

Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

217) During 2010, Canada's unemployment rate was higher than that of the U.S.
Answer: False
Diff: 2
Skill: Recall
Objective: 2.2
A-Heading: The Economic Environment

218) Technology transfer is more important than R & D intensity.
Answer: False
Diff: 2
Skill: Recall
Objective: 2.3
A-Heading: The Technological Environment

219) Technology transfer refers to the process of moving new technological developments out of government research labs and into the private sector.
Answer: False
Diff: 2
Skill: Recall
Objective: 2.3
A-Heading: The Technological Environment

220) R & D spending in Canada in 2009 totaled about \$16 billion.
Answer: True
Diff: 2
Skill: Recall
Objective: 2.3
A-Heading: The Technological Environment

221) R&D intensity refers to R&D spending as a percentage of a company's sales revenue.
Answer: True
Diff: 2
Skill: Recall
Objective: 2.3
A-Heading: The Technological Environment

222) Political stability is an important factor for international firms because no business wants to set up shop in another country unless trade relationships with that country are well defined and stable.
Answer: True
Diff: 1
Skill: Recall
Objective: 2.4
A-Heading: The Political-Legal Environment

223) Governments in market economies are actually quite restricted in terms of what they can require businesses to do.
Answer: False
Diff: 1
Skill: Recall
Objective: 2.4
A-Heading: The Political-Legal Environment

224) Relations between sovereign governments does not have much impact on businesses operating in those countries.

Answer: False

Diff: 1

Skill: Recall

Objective: 2.4

A-Heading: The Political-Legal Environment

225) A product such as bicycles can be marketed in the same way in both Canada and China.

Answer: False

Diff: 2

Skill: Application

Objective: 2.5

A-Heading: The Socio-Cultural Environment

226) The socio-cultural environment includes things like attitudes and values, but not demographic factors because the latter cannot easily be changed.

Answer: False

Diff: 2

Skill: Application

Objective: 2.5

A-Heading: The Socio-Cultural Environment

227) McDonald's has enjoyed great success in the Middle East, partly because employment in food service is viewed as highly desirable.

Answer: False

Diff: 2

Skill: Recall

Objective: 2.5

A-Heading: The Socio-Cultural Environment

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

Answer: False

Diff: 2

Skill: Recall

Objective: 2.5

A-Heading: The Socio-Cultural Environment

229) 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.

Answer: True

Diff: 2

Skill: Recall

Objective: 2.5

A-Heading: The Socio-Cultural Environment

230) Burger King was the first fast food chain in Canada to reduce the fat content in its French fries.

Answer: False

Diff: 1

Skill: Recall

Objective: 2.5

A-Heading: The Socio-Cultural Environment

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

Answer: False

Diff: 1

Skill: Application

Objective: 2.6

A-Heading: The Business Environment

232)To be effective, managers must understand the company's competitive situation, and then develop a competitive strategy to exploit opportunities in the industry.

Answer: True

Diff: 1

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

233)Viral marketing uses word of mouth that spreads information like a virus from customer to customer.

Answer: True

Diff: 2

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

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

Answer: True

Diff: 2

Skill: Application

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

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

Answer: True

Diff: 2

Skill: Recall

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

236)There is a growing trend today for employees to buy significant stakes of larger corporations.

Answer: True

Diff: 2

Skill: Recall

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

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

Answer: True

Diff: 1

Skill: Recall

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

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

Answer: False

Diff: 1

Skill: Recall

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

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

Answer: True

Diff: 1

Skill: Recall

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

SHORT ANSWER QUESTIONS. Write the word or phrase that best completes each statement or answers the question.

240)What is an *organizational boundary*?

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

Diff: 2

Skill: Recall

Objective: 2.1

A-Heading: Organizational Boundaries and Environments

241)List the 5 dimensions of the external environment of business organizations.
Answer: economic, technological, political-legal, socio-cultural, and business environments

Diff: 2

Skill: Application

Objective: 2.1

A-Heading: Organizational Boundaries and Environments

242)What is the main measure of growth in an economy?

Answer: The main measure of growth is aggregate output.

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

243)What is a *recession*?

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

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

244)How is *GDP per capita* calculated?

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

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

245) What is reflected in the *real GDP*?

Answer: The real GDP is calculated to account for changes in currency values and price changes.

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

246) What is productivity?

Answer: Productivity is a measure of economic growth that compares how much a system produces with the resources that are needed to produce it.

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

247) Explain purchasing power parity.

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

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

248) Under what circumstances can inflation be a positive factor?

Answer: As a sign of economic growth, more products sold, more workers are hired, more investment in new products

Diff: 2

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

249) What is the national debt?

Answer: The national debt is the amount of money a country owes its creditors. It is the result of accumulated annual budget deficits.

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

250) What are the three primary factors that threaten economic stability?

Answer: Inflation, deflation, and unemployment are the three primary factors that threaten economic stability.

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

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

Answer: The consumer price index measures the changes in the cost of a "basket" of goods and services that a typical family might buy.

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

252) Define the term *unemployment*.

Answer: Unemployment is the joblessness of people actively seeking work in an economic system.

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

253) What is *cyclical unemployment*?

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

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

254) How does cyclical unemployment differ from frictional unemployment?

Answer: Cyclical unemployment results from a downturn in the business cycle, while frictional unemployment refers to people who are out of work temporarily while they are looking for a new job.

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

255) What is R & D intensity?

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

Diff: 1

Skill: Recall

Objective: 2.3

A-Heading: The Technological Environment

256) What is the difference between pure and applied R & D?

Answer: "Pure" R & D involves developing knowledge in an area without regard to whether any discoveries that occur will be immediately marketable. "Applied" R & D means focusing specifically on how a technological innovation can be sold in the marketplace.

Diff: 1

Skill: Recall

Objective: 2.3

A-Heading: The Technological Environment

257) Why are customer preferences and tastes important to business?

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

Diff: 1

Skill: Recall

Objective: 2.5

A-Heading: The Socio-Cultural Environment

258) List the five forces in Porter's model.

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

Diff: 1

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

259) What is meant by the term *core competencies*?

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

Diff: 2

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

260) What is *outsourcing*?

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

Diff: 2

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

261) What is business process management?

Answer: A process is any activity that adds value to some input, transforming it into an output for a customer. Business process management means moving away from traditional organization by department and toward organizing around process-oriented team structures.

Diff: 2

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

262) What is viral marketing?

Answer: The rapid spread of information among consumers about products. It is facilitated by electronic means such as the internet.

Diff: 2

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

263) How is a *vertical merger* different than a *horizontal merger*?

Answer: A vertical merger occurs when one of the companies involved in the merger is a supplier or customer of the other. A horizontal merger occurs when two companies that are competitors in the same industry merge (for example, when Molson Inc. merged with Adolph Coors Co.).

Diff: 2

Skill: Recall

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

264) What is a *poison pill*?

Answer: A poison pill is a defence that company management uses to make the company less attractive to another company that is trying to take it over. It usually takes the form of allowing stockholders to buy the company's stock at a big discount if a hostile suitor buys more than a certain proportion of the stock.

Diff: 2

Skill: Recall

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

ESSAY QUESTIONS. Write your answer in the space provided or on a separate sheet of paper.

265) List and briefly describe each of the organizational environments that affect businesses.

Answer: The environments are (1) *economic* (the condition of the economic system in which the company operates), (2) *technological* (changes in the way that businesses create value for their customers), (3) *political-legal* (the relationship between businesses and government), (4) *socio-cultural* (the customs, values, attitudes and demographics of the society in which a company operates), and (5) *business* (the complex, demanding, and ever-changing set of circumstances in which businesses try to differentiate themselves from their competitors).

Diff: 2

Skill: Recall

Objective: 2.1

A-Heading: Organizational Boundaries and Environments

266) How might an economic environment characterized by moderate unemployment and low inflation affect a McDonald's restaurant?

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.

Diff: 3

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

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

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. The profits earned by a Canadian-owned automobile plant operating in Brazil would be included in the Canadian GNP, but not GDP.

Diff: 3

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

268) How does the national debt affect economic growth?

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.

Diff: 3

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

269) Explain the relationship between productivity and the standard of living.

Answer: Standard of living refers to the total quantity and quality of goods and services that people can purchase with the currency used by their economic system.

Productivity is a measure of economic growth that compares how much a system produces with the resources needed to produce it. Standard of living improves only through increases in productivity.

Diff: 3

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

270) What is inflation and how does it threaten economic stability?

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.

Diff: 3

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

271) What is unemployment? How does low unemployment threaten economic stability?

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.

Diff: 3

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

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

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.

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

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

Answer: See Figure 2.2.

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

274) Which organization has proposed what they believe is a more realistic measure than GNP or GDP to assess economic activity? What have they called this measure? How does it provide a more realistic measure?

Answer: An organization called Redefining Progress has proposed a more realistic measure to assess economic activity. They have called this measure the Genuine Progress Indicator (GPI) which treats activities that harm the environment or our quality of life as costs and gives them negative values.

Diff: 2

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

275)What are the pros and cons of prolonged economic stability?

Answer: pros: balance, wages constant, low inflation, predictability, stable interest rates

cons: possible stagnation, less innovation, decreasing efficiency, job loss, slowed economy, high unemployment

Diff: 2

Skill: Application

Objective: 2.2

A-Heading: The Economic Environment

276)List and describe the three factors that threaten stability.

Answer: The three factors are inflation (the occurrence of widespread price increases throughout an economic system), deflation (a period of generally falling prices), and unemployment (the level of joblessness among people actively seeking work in an economic system).

Diff: 1

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

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

Answer: frictional unemployment, seasonal unemployment, cyclical unemployment, structural unemployment. Examples will vary.

Diff: 2

Skill: Recall

Objective: 2.2

A-Heading: The Economic Environment

278)Why should companies always be on the lookout for technological breakthroughs?

Answer: There are two good reasons. First, technological breakthroughs might allow a company to develop new products to supplement its current product offerings. The new product may well contribute to increased profits. Second, a technological breakthrough may make one or more of a company's current product line obsolete and threaten its very survival.

Diff: 2

Skill: Recall

Objective: 2.3

A-Heading: The Technological Environment

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

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.

Diff: 3

Skill: Recall

Objective: 2.4

A-Heading: The Political-Legal Environment

280) Why is the socio-cultural environment important for business firms?

Answer: It is important because the values, attitudes, tastes, customs and demographic characteristics of a society have a big influence on what products or services a company can profitably sell to consumers. For example, failure to accurately assess consumer tastes will lead to poor sales and reduced profitability. Unethical behaviour by a company's managers will lead to a poor public image for the company and may very well result in decreased sales and profits.

Diff: 3

Skill: Recall

Objective: 2.5

A-Heading: The Socio-Cultural Environment

281) How is Porter's Five Forces Model useful?

Answer: Porter's model helps managers analyze the competitive situation in their industry, and then decide what their competitive strategy should be. Using the model requires assessment of five elements: rivalry among existing competitors (intensity and type varies across industries), the threat of potential new entrants (new competitors can cause big changes in an industry), the amount of bargaining power that suppliers have (the greater the number of suppliers, the less their individual bargaining power), the amount of bargaining power that buyers have (the fewer the number of buyers, the more their bargaining power), and product substitutes (if there are many substitute products, the industry is more competitive).

Diff: 3

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

282) What is *outsourcing*? Give an example of outsourcing.

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.

Diff: 3

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

283) Describe three advantages of *outsourcing*.

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.

Diff: 3

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

284) What is *viral marketing*? Why do firms use it?

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, and at a lower cost.

Diff: 2

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

285) Why is business process management important?

Answer: It is important because it requires a business to ask a very fundamental question: What must we do well to stay in business? To answer that question, a business must identify the major processes that must be performed well, and then organize resources and skills around those essential processes. This leads to faster decision making and a stronger customer orientation.

Diff: 3

Skill: Recall

Objective: 2.6

A-Heading: The Business Environment

286) What is a *vertical* merger? Provide an example.

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.

Diff: 3

Skill: Recall

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries

287) How does *poison pill* work?

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.

Diff: 3

Skill: Recall

Objective: 2.7

A-Heading: Redrawing Corporate Boundaries