

## Types of Economies and Business Organizations

### Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- \_\_\_\_\_ 1. A great variety of goods and services is characteristic of
  - a. a traditional economy.
  - b. a market economy.
  - c. a command economy.
  - d. all economic systems.
- \_\_\_\_\_ 2. The American economic system can be described as having a
  - a. command economy.
  - b. quota system.
  - c. traditional system.
  - d. free enterprise system.
- \_\_\_\_\_ 3. Public education in the United States is a service provided by
  - a. government.
  - b. central planners.
  - c. the Commerce Department.
  - d. private industries.
- \_\_\_\_\_ 4. The American government provides consumer protection against
  - a. discount buying.
  - b. high-priced imports.
  - c. false advertising.
  - d. high prices of food products.
- \_\_\_\_\_ 5. The concept of voluntary exchange means
  - a. that no money was exchanged.
  - b. using the barter system.
  - c. that people freely and willingly engage in market transactions.
  - d. that only workers will benefit from a transaction.
- \_\_\_\_\_ 6. In a modified private enterprise economy
  - a. there is no government intervention.
  - b. entrepreneurship is prohibited.
  - c. there is some government intervention.
  - d. no one can hold private property.
- \_\_\_\_\_ 7. Choices in a command economy are made by
  - a. private business.
  - b. assembly line workers.
  - c. competition.
  - d. government agencies.
- \_\_\_\_\_ 8. An organized way of providing for the wants and needs of people is known as
  - a. an economic system.
  - b. economic interdependence.
  - c. a fixed income.
  - d. the profit motive.

- \_\_\_ 9. Which group of people ultimately determines the products that a free enterprise economy produces?
- Congress
  - property owners
  - consumers
  - local officials
- \_\_\_ 10. The former Soviet Union is an example of
- capitalism.
  - a command economy.
  - a market economy.
  - free enterprise.
- \_\_\_ 11. An entrepreneur would most likely have the best chance for success in
- a command economy.
  - a market economy.
  - a traditional economy.
  - any of the economies.
- \_\_\_ 12. A rapid increase in the general level of prices is called
- inflation.
  - deflation.
  - a market economy.
  - a depression.
- \_\_\_ 13. The economic system in the United States can best be described as a
- modified private enterprise system.
  - pure free enterprise system.
  - traditional system.
  - command economy.
- \_\_\_ 14. Changes in a market economy tend to be
- revolutionary.
  - prohibited.
  - gradual.
  - discouraged.
- \_\_\_ 15. The most common form of business organization in the United States is the
- sole proprietorship.
  - corporation.
  - cooperative.
  - partnership.
- \_\_\_ 16. In a limited partnership
- one partner is not active in the daily operations.
  - both partners share the work load.
  - neither partner is responsible to the other.
  - all partners are responsible to a corporation.
- \_\_\_ 17. The price paid to use another's money is called
- dividends.
  - interest.
  - principal.
  - stocks.

- \_\_\_\_\_ 18. An advantage of a merger between two companies is
- improved production and efficiency.
  - establishing a legal monopoly.
  - increasing cost.
  - establishing a voluntary transaction.
- \_\_\_\_\_ 19. All of the following describe a multinational EXCEPT
- A multinational is a citizen of several countries at the same time.
  - Multinationals move resources, goods, services, and financial capital across national borders.
  - Multinationals may also be conglomerates.
  - Multinationals do not threaten domestic jobs because many of their plants are built abroad.
- \_\_\_\_\_ 20. Churches and schools are considered to be
- service corporations.
  - nonprofit organizations.
  - service co-ops.
  - horizontal mergers.
- \_\_\_\_\_ 21. One weakness of the sole proprietorship is that the
- owner has no control.
  - business depends solely on the owner.
  - owner has too many partners.
  - business is in constant danger of bankruptcy.
- \_\_\_\_\_ 22. The role of the labor union in negotiating contracts with management is known as
- collective bargaining.
  - limited life.
  - fringe benefits.
  - worker cooperatives.
- \_\_\_\_\_ 23. The owner of shares in a corporation is a
- proprietor.
  - stockholder.
  - partner.
  - manager.
- \_\_\_\_\_ 24. A sole proprietor
- does not have to pay a separate business tax.
  - is exempt from paying any taxes.
  - must rely on government subsidies.
  - has partners in the business.
- \_\_\_\_\_ 25. One advantage enjoyed by a corporation is
- unlimited liability.
  - ease of management.
  - unlimited life.
  - ease of obtaining a charter.
- \_\_\_\_\_ 26. When firms involved in different steps of manufacturing or marketing merge, the result is a
- multinational merger.
  - horizontal merger.
  - conglomeration.
  - vertical merger.

- \_\_\_\_\_ 27. Multinationals are different from other corporations in that they
- usually have the partnership structure.
  - are citizens of several countries at the same time.
  - are much more profitable.
  - are seldom, if ever, conglomerates.
- \_\_\_\_\_ 28. An example of a nonprofit organization is a
- doctor's office.
  - limited partnership.
  - public school.
  - grocery store.
- \_\_\_\_\_ 29. Consumers who form a voluntary association to buy in bulk at lower prices form a
- corporation.
  - cooperative.
  - labor union.
  - credit union.
- \_\_\_\_\_ 30. The local Chamber of Commerce works to
- promote the welfare of its members and the community.
  - earn dividends for its members.
  - protect its members from corporate takeovers.
  - increase its share of common stock.

### Matching

*Match each item with the correct statement below.*

- |                    |                   |
|--------------------|-------------------|
| a. corporation     | f. unlimited life |
| b. sole proprietor | g. proxy          |
| c. principal       | h. merger         |
| d. stockholder     | i. producer co-op |
| e. dividend        | j. multinational  |

- \_\_\_\_\_ 31. the dollar amount borrowed
- \_\_\_\_\_ 32. means the business will continue to exist even if ownership changes hands
- \_\_\_\_\_ 33. companies that have operations in several different nations
- \_\_\_\_\_ 34. a ballot to vote on corporate matters
- \_\_\_\_\_ 35. helps members sell their products
- \_\_\_\_\_ 36. a legal entity with the rights of an individual
- \_\_\_\_\_ 37. the combining of businesses to form a single company
- \_\_\_\_\_ 38. part owner of a firm
- \_\_\_\_\_ 39. individual ownership of a business
- \_\_\_\_\_ 40. profits paid to shareholders

### Short Answer

*Answer THREE of the following*

41. **Critical Thinking** Compare a command economy to a market economy by listing a strength and weakness of each. State how each type of economy satisfies the wants and needs of individuals.

Name: \_\_\_\_\_

ID: A

42. **Critical Thinking** Name and explain the structure of three forms of businesses in America today. List an advantage and a disadvantage for each of these types of businesses.
43. **Critical Thinking** List two reasons businesses merge. Define a vertical merger and a horizontal merger.
44. **Critical Thinking** Explain how the government can play a direct and indirect role as a link between consumers and resources.

Name: \_\_\_\_\_

ID: A

## **Types of Economies and Business Organizations Answer Section**

### **MULTIPLE CHOICE**

1. B
2. D
3. A
4. C
5. C
6. C
7. D
8. A
9. C
10. B
11. B
12. A
13. A
14. C
15. A
16. A
17. B
18. A
19. D
20. B
21. B
22. A
23. B
24. A
25. C
26. D
27. B
28. C
29. B
30. A

### **MATCHING**

31. C
32. F
33. J
34. G
35. I
36. A
37. H

- 38. D
- 39. B
- 40. E

**SHORT ANSWER**

- 41. The strength of a command economy is that it can change direction drastically in a relatively short amount of time. Its weaknesses: It is not designed to meet the wants and needs of individuals, it lacks incentives for people to work hard, it requires a large decision-making bureaucracy, it does not have the flexibility to deal with minor problems, and people with new or unique ideas find it difficult to get ahead. In a command economy a central planning committee decides on how best to satisfy the needs of individuals. The strengths of a market economy: It can adjust to change over time, freedom exists for everyone involved, it has a relatively small degree of government interference, decision making is decentralized, it provides an incredible variety of goods and services to consumers, and has a high degree of consumer satisfaction. Weaknesses of a market economy: The rewards go to the most productive resources, and sometimes markets do not work as they should. A market economy satisfies the needs and wants of individuals by offering products that the consumer requests.
- 42. Three types of businesses are a sole proprietorship, a partnership, and a corporation. A sole proprietorship is a business owned and run by one person. An advantage of a sole proprietorship is that the owner has the sole authority to make decisions and does not have to share profits. A disadvantage is that the owner is fully responsible for losses and debts. A partnership is a business jointly owned by two or more people. An advantage of a partnership is that there is shared responsibility. A disadvantage is that partners are responsible for each other's mistakes. A corporation is a business organization that has all the legal rights of an individual. An advantage of a corporation is that stockholders are only responsible for the shares they hold. A disadvantage is that shareholders have a very limited voice in the day-to-day operations of the company.
- 43. Businesses merge because they want to become larger and more efficient. A horizontal merger is when two or more firms that produce the same kind of product join forces. A vertical merger takes place when firms involved in different steps of manufacturing or marketing come together.
- 44. The government can play a direct role as a link between consumers and resources by producing and distributing certain goods and services to consumers. The government may also use many scarce resources to create a service that benefits all Americans. The government plays an indirect role when it acts as an umpire to make sure the market economy operates as the rules say it should. The government also plays an indirect role when it grants money to people in the form of Social Security, veterans' benefits, financial aid to college students, and unemployment compensation.