

Chapter 9 Organizing Production – Sample Questions

Please note that these questions include topics that will not be covered on the exam.

Topics to be covered from this chapter include:

Economic Profits

Opportunity Cost

Market Structure

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

- 1) The most important goal of the firm is to _____
A) maximize its sales volume. B) minimize its costs.
C) maximize its revenues. D) maximize its profits.
- 2) Profit maximization _____
A) causes a firm to become as large as possible.
B) causes a firm to become the target of a takeover.
C) increases the likelihood that a firm will survive.
D) causes a firm to remain small in the long run.
- 3) Firms use incentives to pursue their most fundamental goal, which is to maximize _____
A) sales revenue. B) profits.
C) worker pay. D) worker satisfaction.
- 4) The fundamental objective of a firm is _____
A) increasing market share. B) making a quality product.
C) achieving employee satisfaction. D) maximizing profits.
- 5) Firms that survive in the long run are usually those that _____
A) become as large as possible. B) use more capital rather than more labor.
C) remain small. D) strive for the largest possible profit.
- 6) To make the best predictions about the decisions made by a firm, we should take account of a firm's _____
A) implicit costs. B) accounting costs.
C) explicit costs. D) opportunity costs.
- 7) Typically a firm's opportunity costs are _____
A) only its implicit costs.
B) the sum of its explicit costs and its implicit costs.
C) neither its explicit costs nor its implicit costs.
D) only its explicit costs.
- 8) Opportunity costs include _____
A) both implicit costs and explicit costs. B) neither explicit costs nor implicit costs.
C) implicit costs but not explicit costs. D) explicit costs but not implicit costs.

- 9) Which of the following are part of a firm's opportunity costs? 9) _____
- I. explicit costs
 - II. implicit costs
 - III. economic depreciation
 - IV. wages
- A) I and II B) II and III C) I and IV D) I, II, III and IV
- 10) A firm's opportunity cost of producing a good equals the 10) _____
- A) explicit cost. B) implicit cost.
C) explicit cost plus the implicit cost. D) explicit cost minus the implicit cost.
- 11) An electrician quits her current job, which pays \$40,000 per year. She can take a job with another 11) _____
firm for \$45,000 per year or work for herself. The opportunity cost of working for herself is
- A) \$45,000. B) \$85,000. C) \$5,000. D) \$40,000.
- 12) The costs of a firm that are paid directly in money are called its 12) _____
- A) implicit costs. B) explicit costs.
C) money opportunity costs. D) alternative costs.
- 13) Which of the following is part of a firm's explicit costs? 13) _____
- I. wages
 - II. utility costs
 - III. interest on a bank loan
 - IV. interest forgone on funds used to buy capital equipment
- A) I, II and III B) III and IV C) I and II D) I, III and IV
- 14) Explicit costs are _____ and implicit costs are _____. 14) _____
- A) not measurable; measurable
B) paid in money; incurred when a firm gives up an alternate action
C) paid in money; paid in interest costs
D) used to maximize profits; used to minimize costs
- 15) An implicit cost is an opportunity cost that 15) _____
- A) is actually part of the firm's normal profit.
B) is measured by the amount of cash the firm actually pays out.
C) is adjusted for the rate of inflation.
D) requires no actual payment of cash.
- 16) Most typically, a firm incurs an implicit cost when it 16) _____
- A) uses its capital equipment.
B) uses labor.
C) pays for its utilities, such as electric power.
D) pays interest on a loan to a bank.

- 17) An implicit rental rate is _____
 A) an opportunity cost. B) a cost that is irrelevant to the business.
 C) an accounting cost. D) an explicit cost.
- 18) The implicit rental rate is the _____
 A) amount paid for the use of a piece of capital equipment owned by someone else.
 B) rental income forgone by not renting a piece of capital equipment to someone else.
 C) depreciation on a piece of capital equipment.
 D) total value of a piece of capital equipment.
- 19) Over a given period, economic depreciation is the change in capital equipment's _____
 A) market value. B) rate of return.
 C) output. D) cost of maintenance.
- 20) The difference between the market price of a new car used by a firm and the market price of the same car one year later is known as _____
 A) economic deterioration. B) economic depreciation.
 C) physical deterioration. D) physical depreciation.
- 21) _____ is the change in market value of capital over a given period. _____
 A) Implicit rental rate B) Accounting implicit rental cost
 C) Economic depreciation D) Accounting depreciation
- 22) The average return for supplying entrepreneurial ability is the firm's _____
 A) normal profit. B) explicit profit.
 C) accounting profit. D) actual profit.
- 23) The return that an entrepreneur can expect to earn, on average, is called _____
 A) accounting profit. B) profit.
 C) normal profit. D) economic profit.
- 24) Economic profit is the difference between total revenue and _____
 A) opportunity costs of production. B) explicit costs of production.
 C) interest costs of production. D) implicit costs of production.
- 25) A firm's economic profit is its total revenue minus its _____
 A) normal profit. B) implicit costs.
 C) opportunity costs. D) explicit costs.
- 26) Among the opportunity costs of a firm are all of the following EXCEPT _____
 A) the owner's forgone wage. B) explicit costs of inputs such as labor.
 C) economic profits. D) normal profits.

- 27) Ed is a freelance writer who could work for a newspaper at \$25,000 a year but instead works for himself for \$41,000 a year. His only business expenses are \$1,000 for writing materials and \$12,000 for rent. Ed's normal profit is \$1,000. Ed's economic profit from working as a freelance writer is _____
 A) \$25,000. B) \$2,000. C) \$1,000. D) \$15,000.
- 28) Which of the following constrain (that is, limit) a firm's profits? _____
 I. its technology
 II. its information
 III. the market in which it operates
 A) I, II and III B) I only C) II and III D) I and II
- 29) A firm's market constraints include the conditions under which it can _____
 A) buy its inputs and sell its outputs. B) convert inputs into outputs.
 C) issue stock. D) produce the inputs to production.
- 30) When Acme Inc. produces a certain amount of output by using the least amount of inputs, Acme Inc. definitely _____
 A) maximizes profits. B) achieves technological efficiency.
 C) achieves economic efficiency. D) minimizes labor costs.
- 31) When Acme, Inc. produces a certain amount of output at least cost, Acme, Inc. definitely _____
 A) uses more capital than labor. B) earns a normal profit.
 C) achieves economic efficiency. D) None of the above is true.
- 32) A firm that is maximizing its profits _____
 A) is technologically efficient but might not be economically efficient.
 B) might be neither economically efficient nor technologically efficient.
 C) is economically efficient but might not be technologically efficient.
 D) is economically efficient and technologically efficient.
- 33) Profits can be maximized only by firms that achieve _____
 A) technological efficiency but not necessarily those that achieve economic efficiency.
 B) technological efficiency and economic efficiency.
 C) neither economic nor technological efficiency.
 D) None of the above answers are correct because the achievement of technological efficiency and economic efficiency has nothing to do with profit maximization.
- 34) A firm that is technologically efficient _____
 A) is not always economically efficient, but a firm that is economically efficient must always be technologically efficient.
 B) *must* be economically efficient, and a firm that is economically efficient must always be technologically efficient.
 C) *must* be economically efficient, but a firm that is economically efficient is not always technologically efficient.
 D) is not always economically efficient, and a firm that is economically efficient is not always technologically efficient.

- 35) A method that is technologically inefficient 35) _____
A) results from failure to calculate the ratio of the cost of labor to the cost of capital.
B) can never be economically efficient.
C) might or might not be economically efficient.
D) means that it uses too much labor and too little capital.
- 36) Technological efficiency occurs when the firm produces a given output 36) _____
A) by using the maximum amount of inputs. B) at the greatest cost.
C) at the least cost. D) by using the least amount of inputs.
- 37) A firm uses labor and capital. To tell if the firm is technologically efficient, you 37) _____
A) do not need to know the cost of labor or the cost of capital.
B) need to know the cost of capital but not the cost of labor.
C) need to know the cost of labor but not the cost of capital.
D) need to know the cost of labor and the cost of capital.
- 38) Firm A can produce a unit of output with 10 hours of labor and 5 units of material. Firm B can 38) _____
produce a unit of output with 5 hours of labor and 10 units of material. Firm C can produce a unit
of output with 10 hours of labor and 10 units of material. If the prices of labor and material are \$10
per hour and \$5 per unit, respectively, which of these firms is the most technologically efficient?
A) firm A only
B) firm B only
C) firm C only
D) Firms A and B could both be technologically efficient.
- 39) The accountant for Muzhi's Sushi claims that Muzhi has accomplished "technological efficiency." 39) _____
This means that Muhzi's Sushi
A) produces a given output using the least inputs.
B) has a normal profit greater than a economic profit.
C) produces a given output at the lowest cost.
D) has an economic profit greater than a normal profit.
- 40) Economic efficiency occurs when the firm produces a given output 40) _____
A) by using the least amount of inputs. B) at the greatest cost.
C) by using the maximum amount of inputs. D) at the least cost.
- 41) The accountant for Muzhi's Sushi claims that Muzhi has accomplished "economic efficiency." This 41) _____
means that Muhzi's Sushi
A) produces a given output using the least inputs.
B) has a normal profit greater than a economic profit.
C) has an economic profit greater than a normal profit.
D) produces a given output at the lowest cost.

- 42) Firm A can produce a unit of output with 10 hours of labor and 5 units of material. Firm B can produce a unit of output with 5 hours of labor and 10 units of material. Firm C can produce a unit of output with 10 hours of labor and 10 units of material. If the prices of labor and material are \$10 per hour and \$5 per unit, respectively, which of these firms is economically efficient? 42) _____
- A) firm A only
 B) firm B only
 C) firm C only
 D) Firms A and B could both be economically efficient.

Techniques that produce 100 sweaters

Technique	Labor (hours)	Capital (machines)
A	10	35
B	25	25
C	10	60
D	30	20

- 43) In the above table, the technique that is not technologically efficient is 43) _____
- A) A. B) B. C) C. D) D.
- 44) In the above table, the technique that is *never* economically efficient is 44) _____
- A) A. B) B. C) C. D) D.
- 45) Using the data in the above table, if the price of an hour of labor is \$10 and the price of a unit of capital is \$20, then the most economically efficient technique for producing 100 sweaters is 45) _____
- A) A. B) B. C) C. D) D.
- 46) Using the data in the above table, if the price of an hour of labor is \$20 and the price of a unit of capital is \$10, then the most economically efficient technique for producing 100 sweaters is 46) _____
- A) A. B) B. C) C. D) D.
- 47) Firms organize production by using a mix of 47) _____
- A) command and market systems. B) command and incentive systems.
 C) market and agency systems. D) incentive and agency systems.
- 48) In order to maximize profits, firms organize their production using 48) _____
- A) a combination of command and incentive systems.
 B) only a command system.
 C) only an incentive system.
 D) neither a command nor an incentive system.
- 49) A golf club manufacturer pays its telemarketers based on the number of golf clubs they sell. This firm 49) _____
- A) organizes production based on a command system.
 B) does not have any implicit costs.
 C) organizes production based on an incentive system.
 D) does not have explicit costs.

- 50) Gilda's Art Gallery rewards its employees with stock each year the gallery makes profits. This stock allows the employees to own part of the gallery. This practice is known as 50) _____
A) minimizing explicit costs. B) minimizing implicit costs.
C) the principle-agent problem. D) incentive pay.
- 51) A command system is a method of coordinating the productive resources that a firm hires. It 51) _____
A) completely overcomes the principal-agent problem.
B) is based on a managerial hierarchy.
C) uses the invisible hand of the market.
D) relies on incentive systems.
- 52) If Acme, Inc. organizes production using managerial hierarchy, Acme, Inc. is using 52) _____
A) an incentive system. B) an efficient system.
C) a command system. D) None of the above answers is correct.
- 53) A large part of the principal-agent problem stems from the desire of 53) _____
A) agents to work hard. B) agents to avoid working.
C) principals to avoid working. D) principals to work hard.
- 54) The principal-agent problem is the issue of inducing 54) _____
A) agents to act in the best interests of principals.
B) agents and principals to work hard.
C) principals to act in the best interests of agents.
D) None of the above answers are correct.
- 55) When bank tellers converse with each other, keeping customers waiting in line, they are 55) _____
A) out of the labor force.
B) working in the best interest of the agent.
C) unemployed.
D) working in the best interest of the principals.
- 56) In their relationship with stockholders, a firm's managers act 56) _____
A) in loco parentis. B) as proprietors. C) as principals. D) as agents.
- 57) A manager in a corporation is likely to be 57) _____
A) an agent but not a principal. B) a principal but not an agent.
C) both a principal and an agent. D) neither a principal nor an agent.
- 58) In the principal-agent relationship between a bank manager and a bank teller, the manager is 58) _____
A) an agent and the teller is a principal. B) a principal and the teller is an agent.
C) a principal, as is the teller. D) an agent, as is the teller.

- 59) Mr. Adams owns a textile business. In order to deal with the principal-agent problem, Mr. Adams might offer his employees _____
 A) incentive pay. B) part- ownership.
 C) long-term contracts. D) all of the above
- 60) Giving managers an ownership stake in a company is an example of _____
 A) an incentive system.
 B) a system that encourages managers to become agents that monitor their principals.
 C) a command system.
 D) economies of scope.
- 61) One of the three main ways of coping with the principal-agent problem is _____
 A) shirking. B) using only short-term contracts.
 C) providing incentive pay. D) giving orders.
- 62) A chief reason firms give employees bonuses based on the firm's profit is to cope with _____
 A) the law of diminishing returns. B) the principal-agent problem.
 C) unions. D) the tax laws.
- 63) A chief purpose of long-term contracts is to improve agents' _____
 A) information. B) security.
 C) control over principals. D) incentives.
- 64) Which of the following are characteristics of a proprietorship? _____
 I. single owner
 II. limited liability
 A) I only B) II only C) both I and II D) neither I nor II
- 65) The owner of a proprietorship has _____ liability and _____ required to use all of his or her entire wealth to pay for the firm's losses. _____
 A) limited; is not B) unlimited; is not
 C) unlimited; might be D) limited; might be
- 66) The legal responsibility for losses incurred by a proprietorship falls upon the _____
 A) owner. B) partners. C) stockholders. D) creditors.
- 67) The profits of a proprietorship are _____
 A) exempt from taxation.
 B) taxed as capital gains indexed for inflation.
 C) taxed at the same rate as the owner's other personal income.
 D) subject to a corporate tax.
- 68) A firm with two or more owners who have unlimited liability is known as _____
 A) a corporation. B) a partnership.
 C) an establishment. D) a proprietorship.

- 69) As owner of a one-third share of a partnership, Josh is legally liable for 69) _____
 A) one-third of its debts. B) all of its debts.
 C) none of its debts. D) all of its taxes but none of its private debt.
- 70) The profits of a partnership are 70) _____
 A) exempt from taxation.
 B) treated as personal income.
 C) taxed as capital gains indexed for inflation.
 D) subject to a corporate tax.
- 71) A firm that has limited liability, perpetual life and profits that are taxed twice would be classified 71) _____
 as a
 A) proprietorship. B) corporation.
 C) partnership or proprietorship. D) partnership.
- 72) Owners of a proprietorship have 72) _____
 A) limited liability. Stockholders in a corporation have unlimited liability.
 B) unlimited liability. Stockholders in a corporation have limited liability.
 C) limited liability. So do stockholders in a corporation.
 D) unlimited liability. So do stockholders in a corporation.
- 73) An advantage of the corporation over other forms of business organization is that 73) _____
 A) large-scale, low-cost capital is more readily available.
 B) a corporation's profits are taxed only once.
 C) the decision-making structure is simple.
 D) the owners have unlimited liability.
- 74) An advantage of the corporate form of organization is that 74) _____
 A) owners have individual unlimited liability.
 B) owners have limited liability.
 C) owners have joint unlimited liability.
 D) creditors have unlimited liability.
- 75) The stockholders of a corporation have _____ liability and _____ required to pay all of the 75) _____
 firm's losses.
 A) unlimited; are not B) limited; are
 C) unlimited; are D) limited; are not
- 76) The limited liability enjoyed by a corporation protects its 76) _____
 A) employees. B) managers. C) customers. D) stockholders.
- 77) Stockholders of a corporation have _____ liability; corporate profits are taxed _____. 77) _____
 A) unlimited; once B) limited; twice C) unlimited; twice D) limited; once

- 78) The owner of a proprietorship might decide incorporate the firm as a corporation in order to 78) _____
 A) avoid the principal-agent problem.
 B) be able to conduct business in more than one county.
 C) be eligible for patent protection of new products.
 D) gain limited liability.
- 79) Most corporations have to pay higher tax rates than do proprietorships and partnerships. But 79) _____
 corporations have the advantage of
 A) enjoying limited liability.
 B) being able to engage in foreign trade.
 C) immunity from antitrust prosecution.
 D) being protected by the commerce clause of the Constitution.
- 80) A corporation pays 80) _____
 A) no taxes on its profits, and stockholders pay no taxes on the income they receive as dividends.
 B) no taxes on its profits, but stockholders pay taxes on the income they receive as dividends.
 C) taxes on its profits, and stockholders pay taxes on the income they receive as dividends.
 D) taxes on its profits, but stockholders pay no taxes on the income they receive as dividends.
- 81) The manufacturing sector is dominated by 81) _____
 A) partnerships. B) government firms.
 C) corporations. D) proprietorships.
- 82) The type of firm that is most numerous is the 82) _____
 A) proprietorship. B) partnership. C) corporation. D) multinational.
- 83) The vast majority of all business sales are accounted for by 83) _____
 A) nonprofit organizations. B) corporations.
 C) partnerships. D) proprietorships.
- 84) _____ account for the largest portion of all firms; _____ account for most of the total revenue. 84) _____
 A) Proprietorships; corporations B) Corporations; proprietorships
 C) Partnerships; corporations D) Proprietorships; partnerships
- 85) Under _____ there are many firms selling identical products. 85) _____
 A) perfect competition B) monopoly
 C) oligopoly D) monopolistic competition
- 86) Under _____, there are many firms selling slightly different products. 86) _____
 A) monopoly B) perfect competition
 C) monopolistic competition D) oligopoly
- 87) Under oligopoly, there are _____ firms selling products that are 87) _____
 A) many; either identical or different. B) few; identical.
 C) few; either identical or different. D) many; different.

- 88) Monopolistic competition and monopoly are _____ market types in that firms in _____. 88) _____
 A) different; monopoly are protected by barriers to entry.
 B) different; monopolistic competition have only a few competitors.
 C) similar; both market types have many competitors.
 D) similar; both market types have products that are identical to those of their competitors.
- 89) Industry concentration measures the extent to which 89) _____
 A) consumers are geographically concentrated.
 B) products are differentiated by the firms in the industry.
 C) the industry executives concentrate on their product.
 D) the market is dominated by a small number of firms.
- 90) The four-firm concentration ratio equals the percentage of the value of _____ accounted for by 90) _____
 the four _____ firms in the industry.
 A) sales; smallest B) sales; largest C) profits; smallest D) profits; largest
- 91) The four-firm concentration ratio measures 91) _____
 A) economic efficiency. B) competitiveness.
 C) technological efficiency. D) profitability.
- 92) A high four-firm concentration ratio implies 92) _____
 A) an absence of competition. B) a presence of competition.
 C) an absence of differentiation. D) a presence of differentiation.
- 93) If an industry is monopolized by one firm, the four-firm concentration ratio equals 93) _____
 A) 25 percent. B) 1 percent. C) 100 percent. D) 40 percent.
- 94) If an industry has a four-firm concentration ratio equal to one hundred percent, then it can safely 94) _____
 be concluded that
 A) the industry is perfectly competitive.
 B) the industry is a monopoly.
 C) the industry is monopolistically competitive.
 D) the industry is either a monopoly or an oligopoly.
- 95) If the four-firm concentration ratio for an industry equals 100 percent, then *definitely* 95) _____
 A) there are no barriers to entry into the industry.
 B) the Herfindahl-Hirschman Index (HHI) equals 10,000.
 C) a small number of firms are in the industry.
 D) the industry is a monopoly.
- 96) If an industry were perfectly competitive, the four-firm concentration ratio would be close to 96) _____
 _____ and the Herfindahl-Hirschman index would be close to _____.
 A) 100; 0. B) 0; 100 C) 100; 100. D) 0; 0

- 97) The _____ the Herfindahl-Hirschman Index (HHI), the _____ the industry.
- A) higher; more firms in B) lower; more profitable
- C) lower; less competitive D) higher; less competitive

97)

Company	Sales (thousands of dollars)
A	750
B	500
C	250
D	125
E	125
F	125
G	125
H	125
I	125
J	125
K	125

- 98) The above table shows the market shares for all the landscaping services in a suburban area. The four-firm concentration ratio equals

98)

- A) 65 percent. B) 100 percent. C) 30 percent. D) 60 percent.

- 99) The above table shows the market shares for all the landscaping services in a suburban area. Which of the following mergers would cause the greatest increase in the four-firm concentration ratio?

99)

- A) six of the smallest firms
B) E and F
C) A and B
D) D and E

- 100) The above table shows the market shares for all the landscaping services in a suburban area. A merger between firms E and F would

100)

- A) raise the four-firm concentration ratio.
- B) lower the four-firm concentration ratio.
- C) have no effect on the four-firm concentration ratio.
- D) create a monopoly.

- 101) The above table shows the market shares for all the landscaping services in a suburban area. A merger between the three largest firms would

101)

- A) decrease the four-firm concentration ratio and decrease the Herfindahl-Hirschman Index (HHI).
- B) make the industry more competitive.
- C) increase the four-firm concentration ratio and decrease the Herfindahl-Hirschman Index (HHI).
- D) increase the four-firm concentration ratio and increase the Herfindahl-Hirschman Index (HHI).

- 102) The above table shows the market shares for all the landscaping services in a suburban area. The Herfindahl-Hirschman Index (HHI) equals 102) _____
 A) 1400. B) 65. C) 1600. D) 900.
- 103) Concentration ratios are generally computed for which geographical scope? 103) _____
 A) regional B) global C) national D) local
- 104) Even though the market for bricks has a low concentration ratio nationally, the U.S. Justice Department might still scrutinize any mergers in this industry because 104) _____
 A) the HHI is high nationally.
 B) the HHI is above 1800 nationally.
 C) the market is regional not national, and the regional concentration might be high.
 D) the HHI is below 1800 nationally.
- 105) Which of the following can lead to a firm being more efficient than a market? A firm can have 105) _____
 I. economies of scale.
 II. economies of scope.
 III. lower transactions costs.
 A) I and II B) I, II and III C) III only D) II and III
- 106) One reason why firms replace markets for some activities is that firms 106) _____
 A) reduce the number of transactions required.
 B) do not require team production.
 C) reduce the rate at which the product is wasted.
 D) enable individuals to avoid a large portion of their taxes.
- 107) A key reason for the existence of firms is that, compared to markets, firms often achieve lower 107) _____
 A) explicit costs. B) scope of team production.
 C) accounting costs. D) transactions costs.
- 108) One of the reasons that a firm can be _____ efficient than a market is that the firm _____. 108) _____
 A) less; has economies of scope
 B) more; does not have any economies of scale
 C) more; lowers transactions costs
 D) less; produces lower profits
- 109) Of the following, the one that is NOT generally a transaction cost is the 109) _____
 A) cost of a lawyer who drafts a contract.
 B) fee to a broker for buying stocks.
 C) cost of the owner's time in a proprietorship.
 D) cost of phone calls made to find a buyer.
- 110) When the cost of producing a unit of a good decreases as its output rate increases, there are economies of 110) _____
 A) production. B) scope. C) size. D) scale.

- 111) "When the cost of producing a unit of a good falls as its output rate increases" is the definition of 111) _____
A) economic efficiency. B) economies of scale.
C) economies of scope. D) technological efficiency.
- 112) "When the cost of producing a unit of a good falls because the firm uses specialized resources to 112) _____
produce a range of goods and services" is the definition of
A) economic efficiency. B) economies of scale.
C) technological efficiency. D) economies of scope.
- 113) A production process in which the individuals in a group specialize in mutually supportive tasks 113) _____
and thereby lower costs is called
A) economic efficiency. B) economies of scope.
C) economies of scale. D) technological efficiency.
- 114) Team production is a production process in which 114) _____
A) individuals rotate from one task to another.
B) individuals specialize in mutually supportive tasks.
C) competing groups perform identical tasks.
D) pay is based on group output.
- 115) A firm with a sales department, a production department, and a marketing department provides 115) _____
an example of
A) team production. B) economies of different departments.
C) economies of scale. D) joint production.
- 116) Which of the following is an explicit cost of operating a business? 116) _____
A) the interest paid back on a bank loan that the owners obtained to help finance the company
B) the interest not earned on funds that were used to buy capital equipment
C) the opportunity cost of the owners' time
D) the opportunity cost of the land and buildings the firm owns and uses
- 117) An economic profit is 117) _____
A) not the same as the company's normal profit.
B) an explicit opportunity cost of the company.
C) the amount of profit an accountant calculates for a company.
D) a cost that is always measured by the accountant.
- 118) Which type of firm produces the largest share of manufacturing output? 118) _____
A) corporations only B) proprietorships only
C) partnerships only D) Proprietorships and corporations are tied.
- 119) Which of the following firms has unlimited liability? 119) _____
A) only corporations B) only proprietorships
C) only partnerships D) both proprietorships and partnerships

- 120) Suppose that Tracy and Pat start a business. Because of a series of bad decisions by Tracy, the company goes bankrupt, owing a total of \$50,000. Tracy is penniless and Pat is a millionaire. If the company were organized as a partnership, Pat would be responsible for 120) _____
- A) over \$1 million of debt. B) \$25,000 of debt.
C) \$0 of debt. D) \$50,000 of debt.
- 121) What is the major advantage of the corporate form of business organization? 121) _____
- A) Its profits are taxed twice. B) Its profits are not taxed.
C) Its owners have unlimited liability. D) Its owners have limited liability.
- 122) A form of business whose profits are taxed twice is 122) _____
- A) a partnership.
B) a corporation.
C) a proprietorship.
D) either a proprietorship or a partnership, depending on other information.

Answer Key

Testname: UNTITLED1.TST

- 1) D
- 2) C
- 3) B
- 4) D
- 5) D
- 6) D
- 7) B
- 8) A
- 9) D
- 10) C
- 11) A
- 12) B
- 13) A
- 14) B
- 15) D
- 16) A
- 17) A
- 18) B
- 19) A
- 20) B
- 21) C
- 22) A
- 23) C
- 24) A
- 25) C
- 26) C
- 27) B
- 28) A
- 29) A
- 30) B
- 31) C
- 32) D
- 33) B
- 34) A
- 35) B
- 36) D
- 37) A
- 38) D
- 39) A
- 40) D
- 41) D
- 42) B
- 43) C
- 44) C
- 45) D
- 46) A
- 47) B
- 48) A
- 49) C
- 50) D

Answer Key

Testname: UNTITLED1.TST

- 51) B
- 52) C
- 53) B
- 54) A
- 55) B
- 56) D
- 57) C
- 58) B
- 59) D
- 60) A
- 61) C
- 62) B
- 63) D
- 64) A
- 65) C
- 66) A
- 67) C
- 68) B
- 69) B
- 70) B
- 71) B
- 72) B
- 73) A
- 74) B
- 75) D
- 76) D
- 77) B
- 78) D
- 79) A
- 80) C
- 81) C
- 82) A
- 83) B
- 84) A
- 85) A
- 86) C
- 87) C
- 88) A
- 89) D
- 90) B
- 91) B
- 92) A
- 93) C
- 94) D
- 95) C
- 96) D
- 97) D
- 98) A
- 99) A
- 100) A

Answer Key

Testname: UNTITLED1.TST

- 101) D
- 102) C
- 103) C
- 104) C
- 105) B
- 106) A
- 107) D
- 108) C
- 109) C
- 110) D
- 111) B
- 112) D
- 113) D
- 114) B
- 115) A
- 116) A
- 117) A
- 118) A
- 119) D
- 120) D
- 121) D
- 122) B