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| *Indicate the answer choice that best completes the statement or answers the question.* |

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| 1. The controversial $700 billion economic bailout plan passed by Congress in early October 2008 was called the \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | American Recovery and Reinvestment Act | |  | b. | Troubled Assets Relief Program | |  | c. | Clayton Antitrust Act | |  | d. | NCUA Corporate Stabilization Program | |

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| 2. In 1982, the total expenditure of the government of Kargenia, a European country, exceeded its revenue by a substantial amount. This forced the government of Kargenia to borrow funds to meet its legal obligations. In this scenario, the government of Kargenia incurred a \_\_\_\_\_ in 1982.   |  |  |  | | --- | --- | --- | |  | a. | fiscal drag | |  | b. | budget deficit | |  | c. | debt brake | |  | d. | revenue backlog | |

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| 3. In the context of monetary policy, which of the following statements is true of the discount rate?   |  |  |  | | --- | --- | --- | |  | a. | The Fed increases it during recessions. | |  | b. | When the Fed reduces it, interest rates on bank loans tend to fall. | |  | c. | When the Fed increases it, banks can obtain funds at a lower cost. | |  | d. | It is the interest rate that the Fed charges on its loans to individuals. | |

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| 4. The Board of Governors of the Federal Reserve holds a meeting to discuss its concern over the decreasing gross domestic product of the country. All members agree that the situation can be brought under control and the economy can be stimulated if they use the discount rate as a tool. In this scenario, the Fed is most likely to:   |  |  |  | | --- | --- | --- | |  | a. | reduce the discount rate. | |  | b. | maintain the existing discount rate. | |  | c. | increase the discount rate. | |  | d. | use a negative discount rate. | |

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| 5. The Fed:   |  |  |  | | --- | --- | --- | |  | a. | decreases the money supply when the economy contracts. | |  | b. | performs banking services for commercial banks in districts where it operates. | |  | c. | calculates the expected expenditure for the federal government every year. | |  | d. | outlines expected revenue that is due from the collection of taxes and fees. | |

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| 6. Brontsky & Co., a member bank of the Fed, receives a notice from the Fed that notifies that it must hold funds equal to 15% of the deposits held by its customers. In this scenario, the 15% is the \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | capital adequacy ratio | |  | b. | capital requirement | |  | c. | reserve requirement | |  | d. | debt ceiling | |

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| 7. Which of the following is an example of a natural monopoly?   |  |  |  | | --- | --- | --- | |  | a. | Public utilities | |  | b. | Agriculture | |  | c. | Network television | |  | d. | The automobile industry | |

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| 8. Which of the following statements is true of a capitalist economy?   |  |  |  | | --- | --- | --- | |  | a. | Individuals are free to choose how much they are willing to pay for products. | |  | b. | Economic equality in the society is of paramount importance. | |  | c. | The competition in the market is biased in favor of a few businesses. | |  | d. | Businesses are not free to decide how much they charge for their products. | |

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| 9. In the context of fundamental principles of a free market system, which of the following statements is true of a supply curve?   |  |  |  | | --- | --- | --- | |  | a. | It shows the relationship between price and quantity from a supplier standpoint. | |  | b. | For most goods and services, it forms a sinusoidal curve. | |  | c. | It shows the relationship between supply and quantity from a buyer standpoint. | |  | d. | For most goods and services, it slopes downward as it moves to the right. | |

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| 10.  \_\_\_\_\_ is a market structure with only a handful of competitors selling products that can be similar or different and has high barriers to entry.   |  |  |  | | --- | --- | --- | |  | a. | Monopolistic competition | |  | b. | Monopoly | |  | c. | Oligopoly | |  | d. | Pure competition | |

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| 11. The government of Bakhraan, an Asian country, owns key industries that directly affect public welfare, such as healthcare and telecommunications. To fund public welfare schemes, such as free childcare and free education, the government levies high taxes on its citizens. In the given scenario, the economic system followed by Bakhraan is \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | capitalism | |  | b. | socialism | |  | c. | communism | |  | d. | distributism | |

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| 12. The government of the South Asian nation of Albana is unable to maintain the electronics business effectively because of slack in management and lack of skilled employees. It sells the business to a company called Ramington Electricals. The company has no association with the government, and it operates on its own terms. The sale of the government-owned electronics business to Ramington Electricals is an example of \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | privatization | |  | b. | globalization | |  | c. | a joint venture | |  | d. | a coalition | |

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| 13. Which of the following statements is true of productivity?   |  |  |  | | --- | --- | --- | |  | a. | Increase in productivity usually gives rise to increase in quality. | |  | b. | A high level of productivity typically correlates with healthy gross domestic product growth. | |  | c. | It refers to the quantity of products that consumers are willing to buy at different market prices. | |  | d. | A low level of productivity tends to correlate with economic expansion. | |

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| 14. In the context of the business cycle, which of the following statements is true of the period of economic contraction?   |  |  |  | | --- | --- | --- | |  | a. | Consumers shift their buying patterns to more basic products. | |  | b. | The dropping prices increase the sales of luxury goods and services. | |  | c. | Businesses start producing more goods to support the economy. | |  | d. | The economic feel-good factor brings in a lot of investment. | |

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| 15. Keltica, a country in Asia, enjoyed a period of great economic boom in the 1980s. The country had robust economic growth, high employment, and abundant business investments during this period. In the context of the business cycle, the economy of Keltica was in \_\_\_\_\_ during the 1980s.   |  |  |  | | --- | --- | --- | |  | a. | a depression | |  | b. | the contraction phase | |  | c. | a recession | |  | d. | the expansion phase | |

**Answer Key**

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| 1. b |

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| 2. b |

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| 3. b |

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| 4. a |

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| 5. b |

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| 6. c |

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| 7. a |

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| 8. a |

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| 9. a |

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| 10. c |

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| 11. b |

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| 12. a |

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| 13. b |

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| 14. a |

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| 15. d |