Economics - REVIEW (Chapters 7 – 9 and 16) - KEY

Microeconomics

Your test for chapters 7-9, 16 will be 50 multiple-choice question and 5 free-response questions. Each chapter will have 10-12 questions and then about 10 questions will come from previous learning, the Budget Challenge quizzes, and the What’s Next packets on Savings Accounts, Credit Cards, and Taxes. There will be two types of questions on the test. One type will test your standards-based content knowledge. The second will be practical problems that will test your ability to apply what you have learned. This review sheet will help you prepare for both but it is not all-inclusive of the test questions. This review sheet will not be graded but it will help you be successful on the test. If you need the textbook pages, I will post them on my website. The answer key to this review will be posted on Wednesday night so you can check your answers.

CHAPTER 7: BUSINESS OPERATIONS

1. The advantages of a Sole Proprietorship include ease of formation, total ownership of profit and total control of business decisions.

2. A business organization that can conduct business in its own name and can own property as if it were an individual is a Corporation.

3. Economists believe that the major goal of each firm is to maximize Profits.

4. Raw materials used to make a product are examples of Variable costs.

5. Shirking could be described as doing less than an equal share of tasks.

6. The disadvantage of a proprietorship that could directly affect the owner’s personal assets is Unlimited Liability.

7. The owners of a corporation are its Stockholders.

8. The disadvantages of Partnerships include shared decision making, unlimited liability and limited life.

9. Corporations are able to borrow large sums of money by issuing Bonds.

10. To purchase a Franchise, the person or group buying it must pay an initial fee, pay a Royalty or percentage of the profits for a number of years and agree to meet certain quality standards.

11. The disadvantages of Sole Proprietorship include unlimited liability, limited ability to raise funds for expansion, and limited life of the business.

12. A Partnership combines two or more people’s specializations with equal decision-making authority.

13. Marginal revenue equals the change in Total Revenue divided by the change in the Quantity of output sold.

14. Rent is an example of a Fixed cost.

15. The cost to a firm that changes according to the number of units produced is the Variable cost.
A business that is legally distinct from its owners and considered an entity in its own right is a **CORPORATION**.

Profit or loss is computed by subtracting **TOTAL COST** from **TOTAL REVENUE**.

A strawberry farmer who has used more and more nutrients on her fixed plot of land, but doesn’t see an increase in her strawberry crop, is experiencing the law of diminishing marginal **RETURNS**.

Total costs divided by **QUANTITY** produced equals the average total cost.

**You will also see a chart like the one you did on the application part of your Chapter 7 Packet. The formulas will be provided for you but you will need to be able to draw your own conclusions from the chart, just like you had to do in your packet.**

**CHAPTER 8: COMPETITION AND MARKETS**

When only a few producers and their products dominate an industry, the market structure is called **OLIGOPOLISTIC**.

In a perfectly competitive market, products must be **IDENTICAL**.

In **MONOPOLISTIC COMPETITIVE** markets, firms spend considerable amounts of money on advertising, differentiating their product and packaging.

When it comes to determining price, sellers in a **PERFECTLY COMPETITIVE** market have no control.

Restaurants, pharmacies and movie theaters are all industries that practice price **DISCRIMINATION**.

In 1890 Congress passed an act that reduced the ability of companies to restrain trade by merging and forming a trust. The act is called the **SHERMAN ANTI-TRUST ACT**.

When a single producer has complete control over one kind of good or service, the market structure is called **MONOPOLISTIC**.

Maximizing **PROFIT** is the goal of all market structures.

A major difference between perfectly competitive markets and monopolistic competitive markets is that with monopolistic competition products are **DIFFERENTIATED**, not identical.

Sellers are “price takers” in a **PERFECTLY COMPETITIVE** market structure.

In the soft drink industry, if two companies account for about 80 percent of sales, then the market would be considered **OLIGOPOLISTIC**.

For a firm to practice **PRICE DISCRIMINATION**, it must find a way to determine which consumer is willing to pay more than another.

Firms protected from competition by public franchises, patents, or copyrights are called **GOVERNMENT** monopolies.

Antitrust laws are designed to **INCREASE** competition.
35. When deciding between **JOBS**, people consider the salary, vacation time and their satisfaction with the work.

36. The demand for labor could decrease if there is a **DECREASE** in demand for the products that workers make.

37. Minimum wage is a government-set wage **FLOOR** (floor or ceiling).

38. If there were a sharp increase in demand for Hershey’s chocolate bars, we might expect an **INCREASE** in demand for workers.

39. Increasing your **EDUCATIONAL** level can increase your income, increase your probability of remaining employed and increase your lifetime income.

40. An economist would explain the huge salaries commanded by entertainers and professional athletes as the result of **SUPPLY** and **DEMAND**.

41. If minimum wage is set above the equilibrium wage rate, it will result in employers being willing to hire **FEWER** (more or fewer) workers.

42. The **NATIONAL LABOR RELATIONS BOARD** investigates unfair labor practices.

43. Another name for money wage is **NOMINAL** wage.

44. The supply curve for labor is **UPWARD** sloping, left to right. (upward or downward)

45. One of the key elements in the **PRODUCTIVITY** of workers is their education and training.

46. A **UNION** is a worker association that bargains with employers for wages and working conditions.

47. If the union and the employer are unable to reach an agreement, the union may **STRIKE**.

48. The **AFL** and the **CIO** merged in the 1950s. (Use the abbreviations)

49. If the quantity supplied of labor is more than the quantity demanded, then the wage rate **FALLS** (rises or falls).

50. **RIGHT-TO-WORK** laws give workers the right to select whether or not to join the union.

51. Government **REGULATIONS** increase costs to taxpayers, specify minimum standards for potentially unsafe products and protect workers against occupational injuries and illnesses.

52. The price of labor is called the **WAGE** rate.

53. The **KNIGHTS OF LABOR** was the first union, organized in 1869.

54. A shortage of workers exists when the **DEMAND** for workers exceeds the **SUPPLY**.

55. **DERIVED** demand for labor would exist when there is an increase in demand for the product.
56. **DIFFERENCES** in wages usually exist because of differences in worker productivity and the demand for the good you produce.

57. Typically, union members earn more than nonunion workers with similar skills by **10 to 15** percent.

58. The **WAGNER** Act of 1935 requires employers to bargain with unions in good faith and made it illegal for employers to interfere with their employees’ rights to organize or join a union.

59. A real wage is a person’s wage rate in terms of what it **BUYS**.

60. Unions **NEGOTIATE** agreements with employers for the benefit of their members and assist members in receiving higher **WAGES** and **BENEFITS**.

You will also have a supply and demand graph provided for you that relates to minimum wages. You will need to be able to interpret the graph and draw conclusions from it, just like in your Chapter 9 packet.

**CHAPTER 16: STOCKS AND BONDS**

61. **FINANCIAL MARKETS** help to bring one person with money together with someone else’s investment opportunity.

62. A **STOCK** is a form of investment and a claim on the assets of a corporation that may rise or fall in value.

63. A company that wants to raise money may borrow money from a **BANK**, issue **STOCK** or issue **BONDS**.

64. When a company offers to sell its stock to the public for the first time, it is called a(n) **INITIAL PUBLIC OFFERING**.

65. The share of the profits of a corporation, paid out to stockholders, is **DIVIDENDS**.

66. Currently the Dow Jones Industrial Average is composed of **30** stocks.

67. The Dow Jones Industrial Average, Standard & Poor’s 500 and Wilshire 5000 are all examples of well-known stock **INDEXES**.

68. The price of a share of stock is determined by **SUPPLY** and **DEMAND**.

69. If a company, government, or government agency wants to borrow money, it may issue **BONDS**.

70. On a particular day, the number of shares traded is the called the **VOLUME**.

71. The stock market page reports the difference between the current closing price of a stock and the previous day’s closing price under the heading of **NET CHANGE**.

72. A **BOND** represents an IOU or a promise to pay.

73. The two major financial markets in our economy are the **STOCK** market and the **BOND** market.
74. A **STOCK OPTION** gives an employee the right to buy shares of company stock at a price specified by the employer.

75. In financial markets, a **BULL** market is one in which prices are expected to rise.

76. AMEX, NASDAQ and the NYSE are examples of stock **MARKETS** or **EXCHANGES**.

77. A **MUTUAL FUND** is a collection of stocks in which to invest.

78. A feature of **MUTUAL FUNDS** is that they give consumers an investment handled by a fund manager.

79. Unlike bonds, stocks provide the holder with **OWNERSHIP** in the company.

80. A stock **INDEX** is a portfolio of stocks that represent a particular market or portion of it.

81. The yield of a stock is the dividend divided by the **CLOSING** price.

82. **BONDS** are evaluated by Standard & Poor’s and Moody’s.

83. As the price paid for a bond rises, the yield **DECLINES**.

You will need to be able to analysis stock data and calculate profit, loss, and dividends as well – just like you did in the Chapter 16 application sections.