

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

1) There are no questions in this section. 1) \_\_\_\_\_

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

2) The simplest form of a business organization is a \_\_\_\_\_. 2) \_\_\_\_\_  
A) proprietorship B) limited liability company  
C) partnership D) corporation

3) Which of the following is an example of a proprietorship? 3) \_\_\_\_\_  
A) the United States Post Office B) the American Cancer Society  
C) Coca-Cola D) a taxi driver

4) Which of the following is an example of a proprietorship? 4) \_\_\_\_\_  
A) the American Cancer Society B) Hunter Construction, LLC  
C) the owner of a local nail salon D) the United States Post Office

5) Which of the following is an example of a proprietorship? 5) \_\_\_\_\_  
A) FedEx B) Luxe Windows, LLC  
C) the American Heart Association D) a freelance photographer

6) All of the following are true for a proprietorship except which one? 6) \_\_\_\_\_  
A) The government requires that it is registered.  
B) It is easy to organize.  
C) It exists only for the life of the owner.  
D) Profits are taxed only once.

7) All of the following are true for a partnership except which one? 7) \_\_\_\_\_  
A) Profits are taxed only once.  
B) It is owned by two or more people.  
C) The owners have limited liability.  
D) The government requires that it is registered.

8) All of the following are true for a partnership except which one? 8) \_\_\_\_\_  
A) The government requires that it is registered.  
B) The owners have unlimited liability.  
C) Profits are taxed twice.  
D) It is owned by two or more people.

9) All of the following are true for a limited liability company except which one? 9) \_\_\_\_\_  
A) The owners have limited liability.  
B) Profits are taxed only once.  
C) It exists for the lifetime of the owner.  
D) The government requires that it is registered.

- 10) All of the following are true for a corporation except which one? 10) \_\_\_\_\_  
A) Profits are taxed only once.  
B) The owners have limited liability.  
C) It has legal requirements in addition to registration.  
D) It has perpetual life.
- 11) Which of the following is an example of a limited liability company? 11) \_\_\_\_\_  
A) the owner of a local dry cleaner  
B) Cooper and Cooper, LLC  
C) a taxi driver  
D) the United States Post Office
- 12) A small law firm that is NOT registered as a limited liability company is likely to be a \_\_\_\_\_ 12) \_\_\_\_\_  
or a \_\_\_\_\_.  
A) proprietorship; partnership  
B) corporation; LLC  
C) proprietorship; corporation  
D) partnership; corporation
- 13) Which type of firm is subject to double-taxation? 13) \_\_\_\_\_  
A) corporation  
B) partnership  
C) proprietorship  
D) limited liability company
- 14) A \_\_\_\_\_ profits are taxed twice. 14) \_\_\_\_\_  
A) corporation  
B) limited liability company  
C) partnership  
D) proprietorship
- 15) Which of the following is an example of a corporation? 15) \_\_\_\_\_  
A) Cooper and Cooper, LLC  
B) Coca-Cola  
C) a taxi driver  
D) the United States Post Office
- 16) Owners of a \_\_\_\_\_ and a \_\_\_\_\_ both have limited liability. 16) \_\_\_\_\_  
A) limited liability company; corporation  
B) proprietorship; partnership  
C) partnership; limited liability company  
D) corporation; proprietorship
- 17) The government requires that each of the following types of firms register the firm except which one? 17) \_\_\_\_\_  
A) limited liability company  
B) proprietorship  
C) partnership  
D) corporation
- 18) In a \_\_\_\_\_, employees are motivated to become an owner. 18) \_\_\_\_\_  
A) partnership  
B) proprietorship  
C) corporation  
D) limited liability company
- 19) A \_\_\_\_\_ is typically run on a day-to-day basis by professional managers. 19) \_\_\_\_\_  
A) partnership  
B) proprietorship  
C) limited liability company  
D) corporation
- 20) A \_\_\_\_\_ is typically overseen by a board of directors. 20) \_\_\_\_\_  
A) partnership  
B) corporation  
C) proprietorship  
D) limited liability company

- 21) A \_\_\_\_\_ only exists for the life of the owner, while a \_\_\_\_\_ has perpetual life. 21) \_\_\_\_\_  
 A) corporation; proprietorship  
 B) proprietorship; limited liability company  
 C) proprietorship; corporation  
 D) partnership; limited liability company
- 22) If you want to establish and run your own business, but are very concerned about your liability should anything go wrong, which of the following would be the best kind of firm for you? 22) \_\_\_\_\_  
 A) limited liability company  
 B) partnership  
 C) corporation  
 D) proprietorship
- 23) In a corporation, board members \_\_\_\_\_. 23) \_\_\_\_\_  
 A) face unlimited liability  
 B) only have their firm's profits taxed once  
 C) typically run the corporation on a day-to-day basis  
 D) oversee the actions of managers
- 24) Which type of firm pays dividends? 24) \_\_\_\_\_  
 A) limited liability company  
 B) corporation  
 C) proprietorship  
 D) partnership
- 25) Which type of firm is legally required to setup a double-entry booking system to record its business transactions? 25) \_\_\_\_\_  
 A) limited liability company  
 B) partnership  
 C) proprietorship  
 D) corporation
- 26) Which type of firm is legally required file an annual report to their state government? 26) \_\_\_\_\_  
 A) corporation  
 B) partnership  
 C) limited liability company  
 D) proprietorship

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

- 27) Regardless of their organizational structure, all firms convert inputs into outputs that can sell or distribute. 27) \_\_\_\_\_
- 28) Non-profit firms are the only type of firm that does not convert inputs into outputs that can be sold or distributed. 28) \_\_\_\_\_
- 29) A partnership can be owned by just one person. 29) \_\_\_\_\_
- 30) The dividend a corporation pays per share is determined by the corporation's board of directors. 30) \_\_\_\_\_
- 31) If a corporation fails, the shareholders are responsible for repaying all of the debt. 31) \_\_\_\_\_

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

- 32) Total revenue is equal to \_\_\_\_\_  
A) price x quantity B) price x profit  
C) price x cost D) quantity x profit
- 33) If Big Brothers Hot Dog stand sold 500 hot dogs at a price \$2 per hot dog, the total revenue is \_\_\_\_\_  
A) \$5,000 B) \$2 C) \$500 D) \$1,000
- 34) All of the following can affect a firm's total revenue except which one? \_\_\_\_\_  
A) returns B) accounting costs  
C) allowances D) discounts
- 35) All of the following can affect a firm's total revenue except which one? \_\_\_\_\_  
A) discounts B) rebates  
C) returns D) opportunity costs
- 36) Which of the following can affect a firm's total revenue? \_\_\_\_\_  
A) allowances B) opportunity costs  
C) implicit costs D) explicit costs
- 37) Weed Masters provides an annual lawn care service to its customers. Weed Masters has 400 customers and charges \$1,000 per annual lawn service. The company offers an 8 percent discount if customers pay in full at the start of the season. If every customer pays in full at the start of the season, Weed Masters' total revenue is \_\_\_\_\_.  
A) \$400,000 B) \$375,000 C) \$368,000 D) \$323,000
- 38) Weed Masters provides an annual lawn care service to its customers. Weed Masters has 350 customers and charges \$750 per annual lawn service. The company offers a 4 percent discount if customers pay in full at the start of the season. If every customer pays in full at the start of the season, Weed Masters' total revenue is \_\_\_\_\_.  
A) \$252,000 B) \$262,500 C) \$10,500 D) \$15,500
- 39) Weed Masters provides an annual lawn care service to its customers. Weed Masters has 225 customers and charges \$800 per annual lawn service. The company offers a 5 percent discount if customers pay in full at the start of the season. If every customer pays in full at the start of the season, Weed Masters' total revenue is \_\_\_\_\_.  
A) \$12,000 B) \$171,000 C) \$180,000 D) \$9,000
- 40) \_\_\_\_\_ is an example of an implicit cost. \_\_\_\_\_  
A) The wear and tear on a firm's machinery  
B) A firm's electric bill  
C) The cost to transport a firm's goods  
D) A salary paid to an employee
- 41) A cabinet firm paid \$5,000 for 10,000 pieces of cabinet hardware. The firm has used 4,000 pieces of hardware and is holding the remaining 6,000 pieces in inventory. The current market price for the 6,000 pieces of hardware is \$2,800. What is the opportunity cost of holding the 6,000 pieces of hardware in inventory? \_\_\_\_\_  
A) \$4,000 B) \$3,000 C) \$5,000 D) \$2,800

- 42) A cabinet firm paid \$5,000 for 10,000 pieces of cabinet hardware. The firm has used 4,000 pieces of hardware and is holding the remaining 6,000 pieces in inventory. The current market price for the 6,000 pieces of hardware is \$2,800. What is the sunk cost of purchasing the cabinet hardware? 42) \_\_\_\_\_  
 A) \$3,000 B) \$4,000 C) \$5,000 D) \$2,800
- 43) A florist paid \$1,200 for 500 glass vases. The florist has used 300 of the glass vases and is holding the remaining 200 vases in inventory. The current market price for the 200 pieces of hardware is \$600. What is the opportunity cost of holding the 200 vases in inventory? 43) \_\_\_\_\_  
 A) \$1,200 B) \$600 C) \$200 D) \$300
- 44) A florist paid \$1,200 for 500 glass vases. The florist has used 300 of the glass vases and is holding the remaining 200 vases in inventory. The current market price for the 200 pieces of hardware is \$600. What is the sunk cost of purchasing the vases? 44) \_\_\_\_\_  
 A) \$1,200 B) \$300 C) \$600 D) \$200
- 45) Big Trucking Company has purchased a \$100,000 dump truck that has a useful life of 8 years. After the first year of use, the market value of the dump truck falls to \$70,000. What is the straight-line depreciation of the dump truck? 45) \_\_\_\_\_  
 A) \$70,000 B) \$30,000 C) \$12,500 D) \$87,500
- 46) Big Trucking Company has purchased a \$100,000 dump truck that has a useful life of 8 years. After the first year of use, the market value of the dump truck falls to \$70,000. What is the economic depreciation of the dump truck? 46) \_\_\_\_\_  
 A) \$87,500 B) \$12,500 C) \$70,000 D) \$30,000
- 47) Big Trucking Company has purchased a \$100,000 dump truck that has a useful life of 8 years. After the first year of use, the market value of the dump truck falls to \$70,000. If the highest one-year return available is 10 percent, what is the one-year return from selling the dump truck? 47) \_\_\_\_\_  
 A) \$7,000 B) \$10,000 C) \$70,000 D) \$60,000
- 48) To start up a two-person partnership law firm, the partners each invest \$125,000 of their own funds. If the partners could have earned 5 percent return on these funds in another endeavor, what is their competitive return? 48) \_\_\_\_\_  
 A) \$237,500 B) \$118,750 C) \$12,500 D) \$6,250
- 49) Suppose you have recently graduated and have been offered a salary position at a reputable accounting firm of \$125,000 (including all benefits) per year. After much consideration, you turn down the offer to start your own accounting firm. You pay yourself \$75,000 (including all benefits) a year. Which of the following represents the opportunity cost of your time? 49) \_\_\_\_\_  
 A) \$100,000 B) \$50,000 C) \$75,000 D) \$125,000
- 50) Suppose you have recently graduated and have been offered a salary position at a reputable accounting firm of \$125,000 (including all benefits) per year. After much consideration, you turn down the offer to start your own accounting firm. You pay yourself \$75,000 (including all benefits) a year. Which of the following represents the *explicit* opportunity cost of your time? 50) \_\_\_\_\_  
 A) \$50,000 B) \$75,000 C) \$125,000 D) \$100,000

- 51) Suppose you have recently graduated and have been offered a salary position at a reputable accounting firm of \$125,000 (including all benefits) per year. After much consideration, you turn down the offer to start your own accounting firm. You pay yourself \$75,000 (including all benefits) a year. Which of the following represents the *implicit* opportunity cost of your time?
- A) \$100,000                      B) \$50,000                      C) \$75,000                      D) \$125,000

51) \_\_\_\_\_

Profit Using Accounting Costs

Profit Using Opportunity Costs

Total Revenue	\$700,000	Total Revenue	\$700,000
Cost		Cost	
Nail technicians	A	Nail technicians	A
Owner's Salary	B	Owner's Time	C
Depreciation Allowance	D	Cost of using building and equipment (opportunity cost)	\$25,000
Total Cost		Total Cost	
Total Profit	E	Total Profit	F

Happy Nails is a locally owned nail salon that is in its first year of business. The nail salon employs 8 nail technicians that are paid \$31,250 each and the owner's is paid \$75,000. If the owner did not own Happy Nails, she would work for a competitor for \$85,000. At the beginning of the year, the building and the salon equipment are worth \$100,000 and at the end of the year, they are worth \$85,000. The accountant for Happy Nails uses straight-line depreciation for the 15-year life of the building and salon equipment. The table above provides some additional information on revenue and the opportunity cost of using the building and equipment.

- 52) Refer to the table above. What is the value of A?

A) \$250,000                      B) \$31,250                      C) \$62,500                      D) \$312,500

52) \_\_\_\_\_

- 53) Refer to the table above. What is the value of B?

A) \$31,250                      B) \$100,000                      C) \$85,000                      D) \$75,000

53) \_\_\_\_\_

- 54) Refer to the table above. What is the value of C?

A) \$75,000                      B) \$31,250                      C) \$100,000                      D) \$85,000

54) \_\_\_\_\_

- 55) Refer to the table above. What is the value of D?

A) \$6,666.67                      B) \$5,000                      C) \$5,666.67                      D) \$4,250

55) \_\_\_\_\_

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

- 56) Refer to the table above. The value of E is greater than the value of F.

56) \_\_\_\_\_

- 57) Competition from profit-maximizing firms will drive firms that are not maximizing profits out of business.

57) \_\_\_\_\_

- 58) Both accounting cost and opportunity costs include explicit and implicit costs.

58) \_\_\_\_\_

- 59) Effective profit-maximizing managers work hard to minimize sunk costs.

59) \_\_\_\_\_

- 60) Managers should use straight-line depreciation when making decisions.

60) \_\_\_\_\_

61) Opportunity cost is a better measure of the true costs faced by firms than accounting costs. 61) \_\_\_\_\_

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

62) If the marginal \_\_\_\_\_ of an action exceeds its marginal \_\_\_\_\_ then the action \_\_\_\_\_ be performed. 62) \_\_\_\_\_

- A) benefit; cost; should not  
B) benefit; cost; should  
C) cost; benefit; should  
D) none of the above

63) At the 30th unit of action, the marginal benefit is equal to \$50 and the marginal cost is equal to \$40. Which of the following is true? 63) \_\_\_\_\_

- A) The 30th unit of action maximizes total gains (total profits).  
B) The 30th unit of action should be undertaken.  
C) The 30th unit of action minimizes total costs.  
D) The 30th unit of action should not be undertaken.

64) At the 50th unit of action, the marginal benefit is equal to \$20 and the marginal cost is equal to \$25. Which of the following is true? 64) \_\_\_\_\_

- A) The 50th unit of action minimizes total costs.  
B) The 50th unit of action maximizes total gains (total profits).  
C) The 50th unit of action should be undertaken.  
D) The 50th unit of action should not be undertaken.

65) To maximize total profit, managers want to produce the quantity in which marginal benefit \_\_\_\_\_ marginal cost. 65) \_\_\_\_\_

- A) exceeds  
B) is equal to  
C) maximizes  
D) minimizes

66) To maximize total profit, managers want to produce the quantity in which marginal cost \_\_\_\_\_ marginal benefit. 66) \_\_\_\_\_

- A) exceeds  
B) maximizes  
C) is equal to  
D) minimizes

67) If the marginal benefit curve is linear and downward sloping and the marginal cost curve is linear and upward sloping, an increase in the marginal cost that causes an upward shift of the curve will \_\_\_\_\_ the profit-maximizing number of units undertaken. 67) \_\_\_\_\_

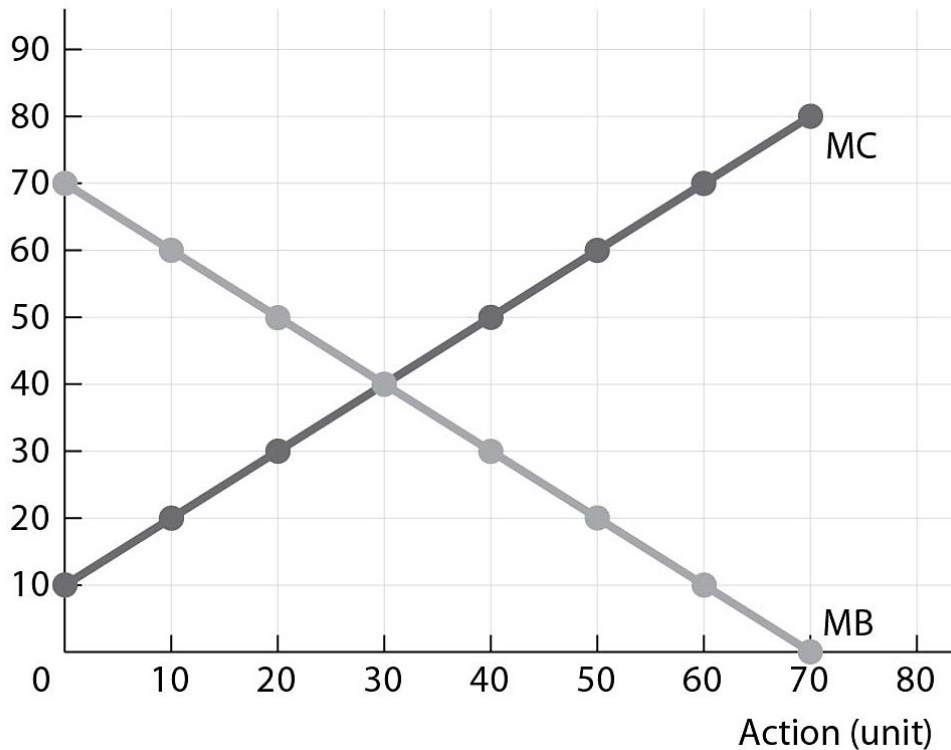
- A) decrease  
B) increase  
C) not change  
D) exactly double

68) If the marginal benefit curve is linear and downward sloping and the marginal cost curve is linear and upward sloping, a decrease in the marginal cost that causes a downward shift of the curve will \_\_\_\_\_ the profit-maximizing number of units undertaken. 68) \_\_\_\_\_

- A) decrease  
B) not change  
C) reduce by exactly half  
D) increase

## Marginal Benefit and Marginal Cost

Marginal benefit and marginal cost (dollars per unit)



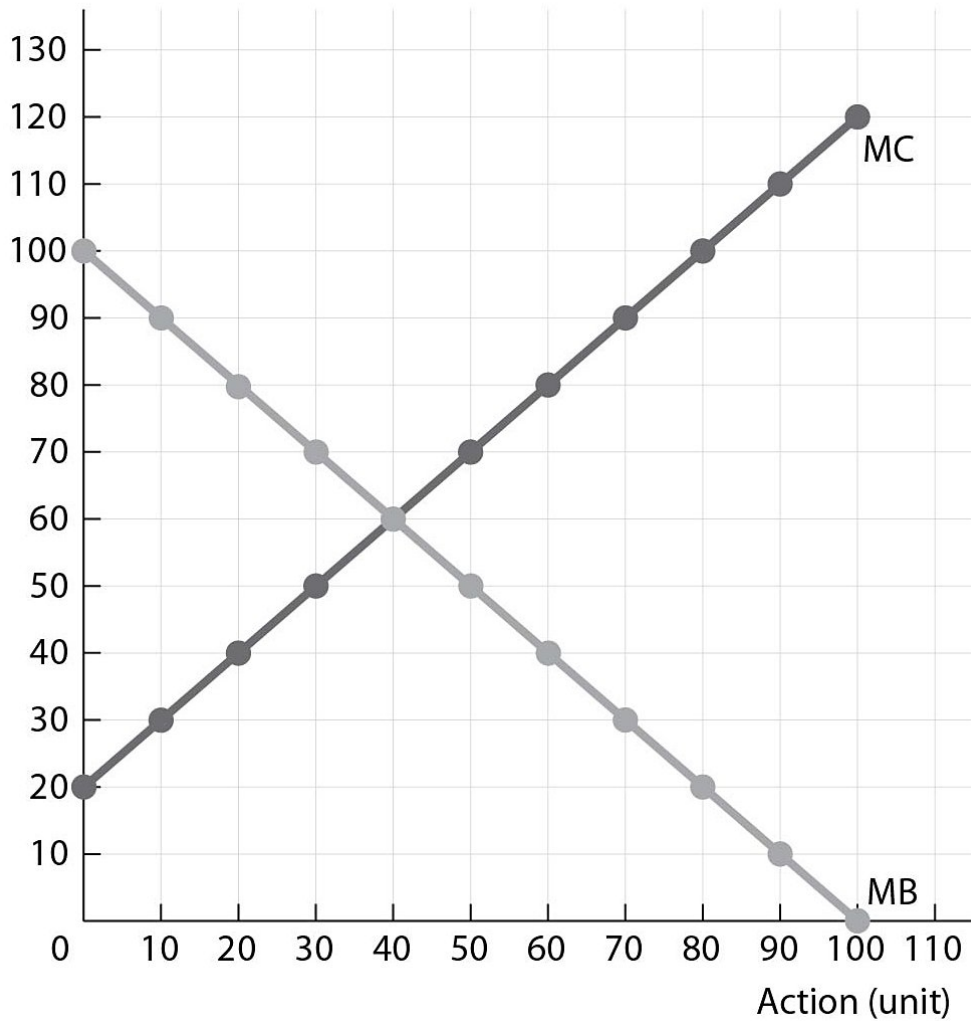
- 69) Refer to the figure above. At the 10th unit of action, which of the following is true? 69) \_\_\_\_\_  
 A) Total losses are minimized. B) Marginal cost exceeds marginal benefit.  
 C) Marginal benefit exceeds marginal cost. D) Total gains are maximized.
- 70) Refer to the figure above. At the 20th unit of action, which of the following is true? 70) \_\_\_\_\_  
 A) Total gains are maximized. B) Marginal benefit exceeds marginal cost.  
 C) Marginal cost exceeds marginal benefit. D) Total losses are minimized.
- 71) Refer to the figure above. At the 40th unit of action, which of the following is true? 71) \_\_\_\_\_  
 A) Marginal cost exceeds marginal benefit. B) Total gains are maximized.  
 C) Marginal benefit exceeds marginal cost. D) Total losses are minimized.
- 72) Refer to the figure above. At the 50th unit of action, which of the following is true? 72) \_\_\_\_\_  
 A) Marginal benefit exceeds marginal cost. B) Marginal cost exceeds marginal benefit.  
 C) Total losses are minimized. D) Total gains are maximized.
- 73) Refer to the figure above. Undertaking the 10th unit of action, yields a surplus of benefit of 73) \_\_\_\_\_  
 \_\_\_\_\_.  
 A) \$40 B) \$20 C) \$60 D) \$80



- 74) Refer to the figure above. Undertaking the 20th unit of action, yields a surplus of benefit of \_\_\_\_\_.  
A) \$30                      B) \$50                      C) \$60                      D) \$20                      74) \_\_\_\_\_
- 75) Refer to the figure above. Which unit of action maximizes total gains (total profits)?  
A) 40                      B) 20                      C) 30                      D) 10                      75) \_\_\_\_\_
- 76) Refer to the figure above. Undertaking the 30th unit of action, yields a surplus of benefit of \_\_\_\_\_.  
A) \$30                      B) \$10                      C) \$20                      D) \$0                      76) \_\_\_\_\_
- 77) Refer to the figure above. An increase in the marginal cost that causes an upward shift of the curve will cause the profit-maximizing number of units undertaken to \_\_\_\_\_.  
A) decrease                      B) equal 50                      C) increase                      D) equal 40                      77) \_\_\_\_\_

## Marginal Benefit and Marginal Cost

Marginal benefit and marginal cost (dollars per unit)



- 78) Refer to the figure above. At the 20th unit of action, which of the following is true? 78) \_\_\_\_\_
- A) Total losses are minimized. B) Marginal cost exceeds marginal benefit.  
C) Total gains are maximized. D) Marginal benefit exceeds marginal cost.
- 79) Refer to the figure above. At the 30th unit of action, which of the following is true? 79) \_\_\_\_\_
- A) Marginal cost exceeds marginal benefit. B) Marginal benefit exceeds marginal cost.  
C) Total losses are minimized. D) Total gains are maximized.
- 80) Refer to the figure above. At the 50th unit of action, which of the following is true? 80) \_\_\_\_\_
- A) Total losses are minimized. B) Marginal benefit exceeds marginal cost.  
C) Total gains are maximized. D) Marginal cost exceeds marginal benefit.
- 81) Refer to the figure above. At the 70th unit of action, which of the following is true? 81) \_\_\_\_\_
- A) Marginal cost exceeds marginal benefit. B) Marginal benefit exceeds marginal cost.  
C) Total losses are minimized. D) Total gains are maximized.

- 82) Refer to the figure above. Undertaking the 20th unit of action, yields a surplus of benefit of \_\_\_\_\_.  
 A) \$40                      B) \$60                      C) \$80                      D) \$20                      82) \_\_\_\_\_
- 83) Refer to the figure above. Undertaking the 30th unit of action, yields a surplus of benefit of \_\_\_\_\_.  
 A) \$70                      B) \$30                      C) \$20                      D) \$50                      83) \_\_\_\_\_
- 84) Refer to the figure above. Which unit of action maximizes total gains (total profits)?  
 A) 20                      B) 50                      C) 30                      D) 40                      84) \_\_\_\_\_
- 85) Refer to the figure above. Undertaking the 40th unit of action, yields a surplus of benefit of \_\_\_\_\_.  
 A) \$0                      B) \$10                      C) \$30                      D) \$20                      85) \_\_\_\_\_
- 86) Refer to the figure above. An increase in the marginal cost that causes an upward shift of the curve will cause the profit-maximizing number of units undertaken to \_\_\_\_\_.  
 A) equal 40                      B) increase                      C) decrease                      D) equal 50                      86) \_\_\_\_\_

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

- 87) Marginal analysis is the comparison of the total benefit of an action compared to its total cost.                      87) \_\_\_\_\_
- 88) All actions in which the marginal benefit exceeds the marginal cost should be undertaken.                      88) \_\_\_\_\_
- 89) All actions in which the marginal cost exceeds the marginal benefit should be undertaken.                      89) \_\_\_\_\_
- 90) Total profit is maximized when marginal benefit equals marginal cost.                      90) \_\_\_\_\_
- 91) Total profit is maximized as long as marginal benefit exceeds marginal cost.                      91) \_\_\_\_\_

## Answer Key

Testname: UNTITLED1

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

## Answer Key

Testname: UNTITLED1

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