



TEXAS TECH UNIVERSITY

**Division of Outreach  
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**ENT  
Economics: Fundamentals of the  
Free Enterprise System  
(v.2.0)**

**To the Student:**

After your registration is complete and your proctor has been approved, you may take the Credit by Examination for ENT.

**WHAT TO BRING**

- notebook paper

**ABOUT THE EXAM**

The examination consists of 60 multiple choice questions worth one point each; you will also answer four essay questions. Each essay is worth 10 points each. Prepare for the exam by taking the sample exam included in this review. When you finish the sample exam, check your answers with the answer key.

The exam is based on the Essential Knowledge and Skills for this subject. Since questions are not taken from any one source, you can prepare by reviewing any of the Texas state adopted textbooks that are used for economics courses. If you do not have a textbook or any other study materials available locally, you may contact the Outreach & Distance Education Bookstore. The bookstore carries the textbook, *Economics Today and Tomorrow*, published by Glencoe Publishing Company, which is used with our ENT course.

There is also a sample examination included with this letter. The sample exam will give you a model of the types of questions that will be asked on your examination. It is not a duplicate of the actual examination. It is provided to illustrate the format of the exam, not to serve as a review sheet.

For more information about CBE policies, visit <http://www.ode.ttu.edu/takeacbe/> or see your course Policies & Forms Guide.

Good luck on your examination!

## CBE Practice Exam

### Multiple Choice

Read each incomplete sentence or question. Choose the letter that corresponds to the word or phrase that best completes the sentence or answers the question.

1. A car used by a messenger service is a type of
  - A. capital.
  - B. labor.
  - C. trade-off.
  - D. opportunity cost.
  
2. Another term for a capitalist system is a
  - A. command economy.
  - B. market economy.
  - C. mixed economy.
  - D. laissez-faire system.
  
3. Every purchase decision involves the use of two scarce resources: \_\_\_\_\_ and \_\_\_\_\_.
  - A. income; expenses
  - B. energy; time
  - C. budgets; capital
  - D. price; income
  
4. Mortgages are offered by all of the following *except*
  - A. credit unions.
  - B. savings and loan associations.
  - C. savings banks.
  - D. consumer finance companies.
  
5. An advantage of home ownership is
  - A. increased mobility.
  - B. higher price.
  - C. lower maintenance.
  - D. creation of equity.
  
6. The largest stock exchange in the world is the
  - A. Midwest Stock Exchange.
  - B. Tokyo Stock Exchange.
  - C. New York Stock Exchange.
  - D. London Stock Exchange.

7. According to the law of demand, when the price of an item goes up, the quantity demanded
- A. stays at the same level.
  - B. rises.
  - C. falls.
  - D. adjusts.
8. According to the law of supply, higher prices prompt producers to
- A. increase demand.
  - B. maintain current production.
  - C. produce less.
  - D. produce more.
9. Unlimited liability means that
- A. shareholders of a company receive dividends only if the company earns a profit.
  - B. the owner of the business bears complete legal responsibility for all debts and damages arising from doing business.
  - C. the business cannot lose more than a preset amount.
  - D. credit can be obtained more easily than in a business that has limited liability.
10. All of the following are characteristics of a monopoly *except*
- A. a single seller.
  - B. complete control of market price.
  - C. barriers to entry.
  - D. the presence of many competing firms.
11. The purpose of marketing is to
- A. increase a company's profits.
  - B. increase a company's market share.
  - C. convince consumers that a certain product or service will add to their utility.
  - D. find a market for a product or service.
12. The Taft-Hartley Act of 1947
- A. strengthened the labor union movement in the United States.
  - B. outlawed closed shops.
  - C. gave local unions the power to negotiate on behalf of their members.
  - D. made it illegal to form a monopoly.
13. The part of the business cycle in which the economy starts to slow down is called
- A. contraction.
  - B. a recession.
  - C. a trough.
  - D. a mild expansion.

14. During the 1930s, the United States experienced
- A. prosperity before the crash.
  - B. depression.
  - C. a post-war boom.
  - D. a very high rate of inflation.
15. The Federal Reserve has the power to
- A. regulate national bank reserves.
  - B. control deposits in member banks.
  - C. set interest rates for all banks.
  - D. tax member banks.
16. A reserve requirement of 20% means that
- A. banks charge each other 20% interest on funds they loan overnight.
  - B. 20% of a bank's deposits must be kept on reserve.
  - C. only 20% of a bank's deposits can be lent out.
  - D. the federal funds rate is 20%.
17. Some people oppose government assistance because they believe it
- A. discourages personal responsibility.
  - B. should be handled by large companies.
  - C. increases tax revenues.
  - D. shields citizens from the harmful effects of unemployment.
18. High unemployment is usually a sign that
- A. the economy is getting better.
  - B. government spending is on the increase.
  - C. purchasing has slowed.
  - D. the government has increased the money supply.
19. Depreciation of the Japanese yen would make Japanese products sold in the United States
- A. less expensive.
  - B. more expensive.
  - C. scarce.
  - D. abundant.
20. Until recently, prices in Russia were set by
- A. supply and demand.
  - B. market conditions.
  - C. government officials.
  - D. the World Trade Organization.

21. Which of the following is *not* a developing nation?

- A. Bolivia
- B. Botswana
- C. New Zealand
- D. Thailand

22. E-commerce involves

- A. providing electronic services over the Internet.
- B. trading stock over the Internet.
- C. providing e-mail over the Internet.
- D. doing business over the Internet.

### **Essay**

Here are two sample essay questions.

- 35. What is the difference between fiscal policy and monetary policy? When are they used?
- 36. What do sellers in monopolistic competition and sellers in oligopolies have in common? What are the differences between them?

## Practice Exam Answer Key

### Multiple Choice

- |      |       |       |
|------|-------|-------|
| 1. A | 9. B  | 17. A |
| 2. D | 10. D | 18. C |
| 3. B | 11. B | 19. A |
| 4. D | 12. B | 20. C |
| 5. D | 13. A | 21. C |
| 6. C | 14. B | 22. D |
| 7. C | 15. A |       |
| 8. D | 16. B |       |

### Essays

Answers should contain at least the following information:

35. In both monopolistic competition and oligopoly, sellers produce and sell slightly differentiated products. Both use advertising to differentiate their products from those of other sellers.

In monopolistic competition there are many sellers, and entry into the market is easy. In an oligopoly there are few sellers, and entry into the market is very difficult.

36. Both monetary and fiscal policy are used to stabilize the economy. Fiscal policy is a change made by the government in spending or taxation. Monetary policy is a change by the Federal Reserve Board in one of three areas: The Fed can enact monetary policy by changing the reserve requirements for banks, buying or selling securities on the open market, or changing the discount rate.

Any one of these policies might be enacted when it appears that the economy needs stimulation in some way. Slow growth, high unemployment, and rapid inflation are the most common reasons that the government might seek to influence the economy through monetary or fiscal policy.