BUSINESS-ENVIRONMENT-AND-CONCEPTS Q&As

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QUESTION 1

With respect to price elasticity of demand:

A. The shorter the time period, the more product demand becomes elastic because less choices are available.

B. Product demand is more elastic when fewer substitutes are available.

C. Product demand is more inelastic when more substitutes are available.

D. Product demand is more elastic when more substitutes are available.

Correct Answer: D

Choice "d" is correct. Product demand is more elastic when more substitutes are available.

Choice "a" is incorrect. The longer the time period, the more product demand becomes elastic because

more choices are available.

Choice "b" is incorrect. Product demand is more elastic when more substitutes are available, not fewer

substitutes.

Choice "c" is incorrect. Product demand is more inelastic when few substitutes are available.

QUESTION 2

In 1990, Amber Corp., a closely held corporation, was formed by Adams, Frank, and Berg as incorporators and stockholders. Adams, Frank, and Berg executed a written voting agreement which provided that they would vote for each other as directors and officers. In 1994, stock in the corporation was offered to the public. This resulted in an additional 300 stockholders. After the offering, Adams holds 25%, Frank holds 15%, and Berg holds 15% of all issued and outstanding stock. Adams, Frank, and Berg have been directors and officers of the corporation since the corporation was formed. Regular meetings of the board of directors and annual stockholders meetings have been held. For this question refer to the formation of Amber Corp. and the rights and duties of its stockholders, directors, and officers. Amber Corp.\\'s day-to-day business ordinarily would be operated by its:

A. Directors.

B. Stockholders.

C. Officers.

Correct Answer: C

Choice "c" is correct. Stockholders have no day-to-day control; management power of a corporation is vested in the directors, but they usually delegate day-to-day management duties to the officers.

QUESTION 3

In 1990, Amber Corp., a closely held corporation, was formed by Adams, Frank, and Berg as incorporators and stockholders. Adams, Frank, and Berg executed a written voting agreement which provided that they would vote for each other as directors and officers. In 1994, stock in the corporation was offered to the public. This resulted in an additional 300 stockholders. After the offering, Adams holds 25%, Frank holds 15%, and Berg holds 15% of all issued and outstanding stock. Adams, Frank, and Berg have been directors and officers of the corporation since the corporation was formed. Regular meetings of the board of directors and annual stockholders meetings have been held. For this question refer to the formation of Amber Corp. and the rights and duties of its stockholders, directors, and officers.

A. Adams, Frank, and Berg must be elected as directors because they own 55% of the issued and outstanding stock.

B. Adams, Frank, and Berg must always be elected as officers because they own 55% of the issued and outstanding stock.

C. Adams, Frank, and Berg must always vote for each other as directors because they have a voting agreement.

Correct Answer: C

Choice "c" is correct. Shareholders in a voting agreement must vote their shares in accordance with the agreement. There is no requirement that majority shareholders be elected as directors or officers.

QUESTION 4

To decrease the money supply, the Fed might:

A. Sell government securities on the open market.

B. Buy government securities on the open market.

C. Decrease the required reserve ratio.

D. Lower the discount rate.

Correct Answer: A

Choice "a" is correct. To decrease the money supply, the Fed can: (1) sell government securities in the

open market, (2) increase the discount rate, and (3) increase the required reserve ratio.

Choice "b" is incorrect. The Fed should sell (not buy) securities on the open market.

Choice "c" is incorrect. The Fed should increase (not decrease) the required reserve ratio.

Choice "d" is incorrect. The Fed should increase (not decrease) the discount rate.

QUESTION 5

Which one of the following statements about trade credit is correct? Trade credit is:

A. Not an important source of financing for small firms.

B. A source of long-term financing to the seller.

C. Subject to risk of buyer default.

D. Usually an inexpensive source of external financing.

Correct Answer: C

Choice "c" is correct. Trade credit is subject to risk of buyer default.

Choice "a" is incorrect. Trade credit is an important source of financing for small firms.

Choice "b" is incorrect. Trade credit is not a source of long-term financing to the seller.

Choice "d" is incorrect. Trade credit is usually an expensive source of external financing.