WGU Global Economics for Managers (C211, UZC2)

WGU Global-Economics-for-Managers

Version Demo

Total Demo Questions: 11

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QUESTION NO: 1

What are characteristics of monopolistic competition? (Choose THREE.)

A. Many sellers

B. Product differentiation

C. Free entry and exit

D. One seller

E. Homogeneous products

ANSWER: A B C

Explanation:

Monopolistic competition is characterized by many sellers, product differentiation, and free entry and exit. In this market structure, numerous independently operating firms compete for consumers, so no single firm controls the entire market. Each firm offers a product or service that is similar to competing offerings but differentiated through features such as quality, design, branding, location, or customer experience. This differentiation gives each firm limited discretion in setting its own price because customers may prefer its particular version of the product. Entry and exit are relatively easy compared with more concentrated market structures. When firms earn economic profit, new firms can enter with differentiated alternatives; when firms incur losses, some firms can leave. Over time, this competitive entry-and-exit process tends to move firms toward normal economic profit in the long run. Restaurants, salons, clothing retailers, and many consumer-service businesses commonly illustrate these conditions. These defining features are consistent with standard microeconomic descriptions of monopolistic competition from OpenStax Principles of Economics and the Encyclopaedia Britannica overview of monopolistic competition.

QUESTION NO: 2

In an oligopoly with an initial agreement to maximize total profit, which statements might a firm motivated by self-interest likely make? (Choose THREE.)

A. “If my fellow firms live up to the agreement, I am better off raising production.”

B. “If my fellow firms fail to live up to the agreement and raise production, I am better off raising production myself.”

C. “Regardless of what my fellow firms do, I am better off raising production beyond the agreed-to level.”

D. “I am better off reducing output below the agreed level.”

E. “I should always cooperate, regardless of outcomes.”

ANSWER: A B C

Explanation:

An agreement to maximize total profit requires oligopolistic firms to restrict output relative to the level each would choose independently. Yet each individual firm has an incentive to expand its own production beyond the agreed amount. “If my fellow firms live up to the agreement, I am better off raising production” captures the payoff from selling additional units while the other firms keep output low, allowing the deviating firm to gain sales and profit. “If my fellow firms fail to live up to the agreement and raise production, I am better off raising production myself” reflects the incentive not to concede market share when rivals have already expanded output. Together, these incentives make “Regardless of what my fellow firms do, I am better off raising production beyond the agreed-to level” the firm’s self-interested conclusion in the one-period prisoner’s-dilemma model of oligopoly. This is a dominant-strategy logic: raising output is privately attractive whether competitors comply or deviate, even though mutual compliance would produce higher combined profit. OpenStax describes how oligopoly outcomes can resemble a prisoner’s dilemma and why firms may have incentives to depart from cooperative output decisions: OpenStax, Oligopoly. For a related discussion of cartels, output restriction, and incentives to cheat, see Econlib, Cartels.

QUESTION NO: 3

What is purchasing power parity (PPP)?

A. A theory suggesting that the price for identical products sold in different countries must be the same in the absence of trade barriers

B. The gain from taking advantage of inefficient exchange rates

C. The movement of investors in the same direction at the same time

D. The idea that a country ' s exchange rate is an indicator of socioeconomic well-being

ANSWER: A

Explanation:

Purchasing power parity (PPP) is the economic principle that, after converting prices into a common currency, equivalent goods or a representative basket of goods should have the same purchasing power across countries when markets function without significant frictions. The statement “A theory suggesting that the price for identical products sold in different countries must be the same in the absence of trade barriers” captures the law-of-one-price intuition underlying PPP. If an identical product were persistently cheaper in one country after accounting for the exchange rate, buyers and sellers would have an incentive to purchase it in the cheaper market and sell it in the more expensive one. That market pressure tends to move relative prices and exchange rates toward parity. In practice, transportation costs, tariffs, taxes, nontradable goods, and differences in product quality can keep actual exchange rates away from PPP for substantial periods. Therefore, PPP is most useful as a long-run benchmark for comparing currencies and national price levels rather than as a claim that every individual price is always identical internationally. The International Monetary Fund describes PPP exchange rates as rates that equalize the purchasing power of different currencies, and the World Bank uses PPPs to compare real economic output and living standards across economies. See the IMF overview of purchasing power parity and the World Bank explanation of PPP.

QUESTION NO: 4

Which strategy for responding to multinational enterprises is appropriate in a situation in which there is low industry pressure to globalize and competitive assets are customized to home markets?

A. Contender strategy

B. Retainer strategy

C. Defender strategy

D. Responder strategy

ANSWER: C

Explanation:

The **Defender strategy** is appropriate when industry globalization pressure is low and a local firm’s competitive assets are tailored to its home market. Under these conditions, the firm can focus on protecting and strengthening its domestic position rather than making major international commitments. Its advantages commonly arise from close customer relationships, a trusted local brand, familiarity with domestic regulations and business practices, and distribution networks designed for local conditions. These assets may be highly valuable in the home market even though they are not readily transferable to other countries.

A defender responds to multinational enterprises by exploiting these locally embedded strengths and serving the needs of domestic customers especially well. Because the industry does not demand extensive global integration, the company is not under substantial pressure to build a broad international footprint. Instead, it can sustain its position through continued investment in the capabilities and relationships that distinguish it in its national market. This strategy follows the framework for local firms facing multinational competition, which emphasizes matching strategic response to globalization pressure and the transferability of the firm’s assets. See Harvard Business School: Strategies That Fit Emerging Markets and IMD: Competing with Multinationals.

QUESTION NO: 5

Which system has elements of a market economy and a command economy?

A. Fair economy

B. Market-command economy

C. Mixed economy

D. Compromise economy

ANSWER: C

Explanation:

A **mixed economy** combines market-based decision-making with government direction or control in selected areas. Businesses and households generally make many production, consumption, employment, and investment decisions through voluntary exchange, with prices influenced by supply and demand. At the same time, the government participates through tools such as laws and regulations, taxes, public expenditure, transfer programs, provision of public goods, and—in some cases—ownership or management of enterprises and infrastructure. The relative degree of market activity and government involvement differs by country and can change over time, but the defining feature is the coexistence of both mechanisms rather than exclusive reliance on either one.

This concept matters to managers because government policy can shape operating costs, labor practices, environmental requirements, competition, trade, and consumer demand, even where most firms are privately owned. The Federal Reserve describes the United States as having a mixed economy, in which private markets operate alongside significant government activity and regulation. The IMF also discusses how public institutions and policies influence economic outcomes while markets allocate many resources. See the Federal Reserve Bank of St. Louis overview of command and market economies and the IMF discussion of government's role in the economy.

QUESTION NO: 6

What is true about forward transactions?

A. They allow participants to buy and sell currencies now for future delivery.

B. They are the classic single-shot exchange of one currency for another.

C. They convert one currency into another at one time with an agreement to revert it back at another time in the future.

D. They allow traders to sell currency holdings at an exchange rate in the past.

ANSWER: A

Explanation:

They allow participants to buy and sell currencies now for future delivery. A foreign-exchange forward transaction is an agreement made on the trade date in which the parties fix the currencies, amount, exchange rate, and future settlement date, while the actual currency delivery and payment occur at that later date. This feature lets a business establish in advance the domestic-currency value of an expected foreign-currency receipt or payment. For example, a U.S. company that will need euros to pay a supplier in three months can enter a forward contract today to set the dollar-per-euro rate it will use at settlement. The company therefore has greater certainty about the dollar cost of the planned payment, regardless of how the market exchange rate moves before the delivery date. Forward contracts are consequently a core foreign-exchange risk-management tool for firms with future cross-border cash flows. The agreed forward rate reflects the terms negotiated or quoted when the contract is entered, and the defining timing distinction is that the commitment is made now but settlement is deferred. The Federal Reserve's description of foreign-exchange forwards similarly identifies them as contracts for exchanging currencies at a specified future date. See the Federal Reserve Bank of New York Foreign Exchange Committee and the Bank for International Settlements overview of foreign-exchange markets.

QUESTION NO: 7

What is one benefit of small-scale entries into foreign markets?

A. They demonstrate a strategic commitment to certain markets.

B. They give complete equity and operational control.

C. They focus on learning by doing while limiting the downside risk.

D. They present easy opportunities to build market share.

ANSWER: C

Explanation:

They focus on learning by doing while limiting the downside risk. Small-scale entry lets a firm establish a limited presence in a foreign market before making a substantial, difficult-to-reverse commitment. Through a modest investment—such as limited exporting, a small local operation, or a carefully scoped partnership—the firm can gather practical knowledge about customer preferences, demand conditions, local competition, distribution, business norms, and regulatory requirements. That experience helps managers refine their assumptions and decide whether greater investment is warranted. At the same time, because fewer resources are committed initially, the firm reduces its exposure if market conditions prove less favorable than expected or its strategy requires adjustment. This learning-and-risk-management value is particularly important when the company has limited knowledge of the target country or faces considerable uncertainty. The approach supports incremental internationalization: firms build capabilities and market knowledge from direct experience before expanding their commitment. This is consistent with the U.S. International Trade Administration's guidance that market research and evaluation are essential to assessing export-market opportunities, and with the World Bank's discussion of the role of information in firms' exporting decisions. U.S. International Trade Administration: Export Solutions; World Bank: Exporting and Productivity.

QUESTION NO: 8

What does the Federal Reserve do to expand aggregate demand? (Choose TWO.)

A. Increase the foreign exchange rate

B. Increase the money supply

C. Lower the interest rate

D. Decrease the money supply

E. Raise mortgage rates

F. Reduce the quantity of reserves

ANSWER: B C

Explanation:

"Increase the money supply" and "Lower the interest rate" are the expansionary monetary-policy actions that increase aggregate demand. When the Federal Reserve pursues an easier monetary stance, financial conditions become more accommodative: banks and other lenders have greater capacity and incentive to extend credit, while households and businesses can borrow at lower costs. Lower borrowing costs encourage consumers to finance interest-sensitive purchases, such as homes, vehicles, and durable goods, which raises consumption spending. They also make more business investment projects profitable, increasing firms' spending on equipment, structures, inventories, and expansion. These increases in consumption and investment are components of aggregate demand, so total planned spending in the economy rises. In introductory macroeconomic models, increasing the money supply is the mechanism that puts downward pressure on market interest rates; in modern practice, the Federal Reserve implements policy primarily through administered rates and other tools that influence financial conditions. The Federal Reserve describes monetary policy as affecting the availability and cost of money and credit, and explains that lower interest rates support household and business spending. See the Federal Reserve's monetary policy overview and its explanation of how monetary policy works.

QUESTION NO: 9

What is a characteristic of common law as compared to civil law?

A. Common law relies primarily on comprehensive statutes and codes.

B. Common law is more reliant on precedents from previous judicial decisions.

C. Common law is based on religious teachings.

D. Common law minimizes the role of judges.

ANSWER: B

Explanation:

Common law is more reliant on precedents from previous judicial decisions. A defining feature of common-law systems is *stare decisis*, the practice of treating prior judicial decisions as authoritative guidance when courts decide later cases involving similar legal issues and material facts. Judges therefore do more than apply a single comprehensive legal code: through interpreting statutes and resolving disputes, appellate court decisions establish principles that shape how the law is applied in subsequent cases. This reliance on case law allows common law to develop incrementally as courts address new fact patterns, commercial practices, and social circumstances. For managers operating across borders, this means that understanding relevant judicial decisions is important when assessing contracts, liability exposure, property rights, and regulatory risk in a common-law jurisdiction. Civil-law systems also use court decisions in practice, but their traditional primary source of law is enacted legislation organized into codes; precedent has the especially central, formal role in common-law reasoning. The Legal Information Institute describes common law as law derived from judicial decisions rather than statutes, while the UK judiciary explains that precedent means lower courts generally follow legal principles established by higher courts. See Cornell Legal Information Institute: Common Law and Courts and Tribunals Judiciary: Judicial independence and precedent.

QUESTION NO: 10

In the long run, which outcomes are expected in monopolistic competition when firms initially earn economic profit? (Choose TWO.)

A. New firms enter with differentiated products.

B. Economic profit tends toward zero.

C. Products become homogeneous across all firms.

D. Each firm is required to charge a price equal to marginal cost.

E. Existing firms gain permanent monopoly power.

ANSWER: A B

Explanation:

New firms enter with differentiated products because economic profit attracts competitors when entry barriers are relatively low. As consumers gain more alternatives, the demand curve facing each existing firm shifts leftward. **Economic profit tends toward zero** as entry continues until firms no longer earn returns above their opportunity costs.

Long-run adjustment does not make products homogeneous; product differentiation remains a defining characteristic of monopolistic competition. It also does not require firms to price at marginal cost, as would be expected in perfect competition. Each firm generally retains some price-setting power because its product remains differentiated.

QUESTION NO: 11

Which methods does the Federal Reserve use to alter reserve quantities? Choose three answers.

A. Raising the discount rate

B. Buying bonds

C. Raising inflation

D. Selling stock shares

E. Selling bonds

F. Raising income tax rates

ANSWER: A B E

Explanation:

The Federal Reserve can influence the quantity of reserves in the banking system through its lending facilities and open-market operations. “Raising the discount rate” is a monetary-policy action that raises the cost for eligible depository institutions to borrow from the Federal Reserve. By affecting banks’ willingness to obtain discount-window credit, it influences the amount of reserve balances supplied through that channel. The Federal Reserve describes the discount rate as the interest rate charged on loans it makes to eligible institutions.

“Buying bonds” and “Selling bonds” are the two directions of open-market operations. When the Federal Reserve buys securities, it pays for them by crediting reserve balances, which increases reserves held in the banking system. When it sells securities, payment for those securities reduces reserve balances, thereby decreasing reserves. These transactions have historically been a principal means by which the Federal Reserve adjusted the supply of reserves and implemented monetary policy. The Federal Reserve’s overview of monetary policy tools and its explanation of open-market operations provide further detail: Federal Reserve monetary policy principles and practice and Federal Reserve open market operations.