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CLEP Principles of Management Exam

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Question: 1

A command economy is characterized by:

- a. A laissez-faire approach by the government
- b. A moderate amount of government intervention in the economy
- c. Businesses commanding all aspects of the economy
- d. The government controlling prices and production

Answer: D

Explanation:

A command economy (also known as a planned economy) is characterized by the government controlling nearly all aspects of the economy, including prices and production. This type of economy is traditionally associated with Communist economies where prices, wages and production quotas are set by the government. A, B, and C are all incorrect because they imply some form of private sector autonomy.

Question: 2

Which of the following is not a responsibility of the Securities and Exchange Commission (SEC)?

- A. Regulating securities
- B. Investigating insider trading
- C. Setting interest rates
- D. Processing applications for initial public offerings (IPOs)

Answer: C

Explanation:

The Securities and Exchange Commission (SEC) is responsible for regulating securities, investigating insider trading, and processing applications for initial public offerings (IPOs) of stock. However, the Federal Reserve is responsible for setting interest rates.

Question: 3

In marketing, the demand for a product is directly influenced by:

- A. Customers' desire for a product
- B. Customers' ability to obtain a product
- C. Availability of a product

D. Both A and B

Answer: D

Explanation:

In marketing, the demand for a product is determined both by customers' desire for that product, coupled with their ability to obtain it if they want it. For example, even if customers want a product, demand for it may be decreased if it is illegal or prohibitively expensive. Answer C, availability of a given product, refers to supply, not demand.

Question: 4

The Sarbanes-Oxley Act of 2002:

- A. Vastly reduced the financial reporting obligations that corporations face
- B. Deregulated public utilities
- C. Was intended to fight corporate and accounting fraud
- D. Reduced tariffs on trade among North American countries

Answer: C

Explanation:

The Sarbanes-Oxley Act of 2002 was intended to fight corporate and accounting fraud in the wake of several huge scandals that brought down major US corporations. This bill reformed the rules and regulations governing corporations' financial disclosures, and increased financial reporting obligations.

Question: 5

An employee earns \$2,000.00 per month in gross pay, but pays 9% in federal taxes, 3% for state taxes, and 2% for local taxes. After tax, the company withholds \$104.36 for health insurance. What is the employee's net pay?

- A. \$2,000.00
- B. \$1,615.64
- C. \$1,820.00
- D. \$1,720.00

Answer: B

Explanation:

The employee's net pay, or total take-home pay after deductions, is \$1,615.64. This is calculated by subtracting the employee's taxes (totaling 14%, or \$280.00) and insurance (\$104.36) from the gross pay of \$2,000.00.

Question: 6

A market in which product availability exceeds demand is called a:

- A. Free market
- B. Seller's market
- C. Buyer's market
- D. Black market

Answer: C

Explanation:

A market in which product availability is greater than product demand is called a buyer's market, because when supply (product availability) exceeds demand, the prices paid by buyers decrease. This decrease in prices benefits the buyer of a product and decreases the seller's profits.

Question: 7

Which of the following is not a part of Maslow's hierarchy of needs?

- A. Self-actualization
- B. Esteem
- C. Safety
- D. Supply and demand Correct

Answer: D

Explanation:

Supply and demand is not a part of Maslow's hierarchy of needs. This hierarchy is part of Maslow's theory that once people satisfy basic needs like food, water, and physical security, they begin to pursue needs higher up the hierarchy, like social acceptance, self-esteem, and self-actualization.

Question: 8

Which of the following countries is not part of NAFTA?

- A. Mexico
- B. United States
- C. Canada
- D. China

Answer: D

Explanation:

China is not part of NAFTA. NAFTA refers to the North American Free Trade Agreement, which is an agreement to encourage trade between the U.S., Canada, and Mexico.

Question: 9

A consumer's credit score is directly influenced by which of the following factors?

- A. Debt repayment history
- B. Employment history over the last five years
- C. Marital status
- D. Income level

Answer: A

Explanation:

A consumer's credit score is directly influenced by the individual's payment history on car and home loans, credit cards, etc. While marital status, employment history, and income level may indirectly influence the credit score by affecting the consumer's ability to pay bills on time, only payment history itself is a direct factor in credit score calculations.

Question: 10

Upon which organization does the international community primarily rely to deal with claims of unfair protectionism by one country against another?

- A. North Atlantic Treaty Organization (NATO)
- B. World Trade Organization (WTO)
- C. Organization of Petroleum Exporting Countries (OPEC)
- D. International Red Cross (IRC)

Answer: B

Explanation:

The primary organization upon which the international community relies to deal with claims of unfair protectionism by one country against another is the World Trade Organization (WTO). NATO is a military alliance among many North American and European countries, OPEC is an organization of oil-producing countries that regulates supply and prices, and the Red Cross is an international humanitarian organization.

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