

# Future Business Leader Achievements (FBLA) Economics Practice Exam (Sample)

## Study Guide



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**SAMPLE**

## **Questions**

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- 1. How is "standard of living" defined?**
  - A. The amount of wealth and comfort available**
  - B. The total population of a region**
  - C. The poverty line in an economy**
  - D. The number of goods produced in a year**
- 2. The term "business cycle" refers to what?**
  - A. The pattern of workplace productivity**
  - B. The series of fluctuations in economic activity**
  - C. The duration of business operations**
  - D. The cycle of corporate mergers**
- 3. What are the three main types of unemployment?**
  - A. Structural, voluntary, and frictional**
  - B. Cyclical, seasonal, and permanent**
  - C. Frictional, structural, and cyclical**
  - D. Long-term, short-term, and temporary**
- 4. Which branch of economics studies the economy as a whole?**
  - A. Microeconomics**
  - B. Macroeconomics**
  - C. Behavioral economics**
  - D. Development economics**
- 5. Which of the following best describes a monopoly?**
  - A. A market with many sellers**
  - B. A market with one seller**
  - C. A market with no barriers to entry**
  - D. A market with perfect competition**
- 6. What does "deflation" refer to?**
  - A. An increase in the price level of goods and services**
  - B. A decrease in purchasing power**
  - C. A decrease in the general price level of goods and services**
  - D. An increase in government spending**

- 7. How can the production of meals at a fast-food restaurant be increased in the short run?**
- A. By adding a new dining room at the restaurant**
  - B. By building a new and larger restaurant**
  - C. By hiring a second shift of workers and staying open later**
  - D. By remodeling the old restaurant and expanding the kitchen**
- 8. Which level of government employs more people and purchases more goods and services?**
- A. State government**
  - B. Local government**
  - C. Federal government**
  - D. International organizations**
- 9. What does the term "balance of trade" refer to?**
- A. The surplus of imports over exports**
  - B. The difference between the value of a country's exports and imports**
  - C. The total value of goods and services produced in a country**
  - D. The amount of foreign investment in a country's economy**
- 10. What is human capital?**
- A. The availability of natural resources in an economy**
  - B. The economic value of an individual's skills, knowledge, and experience**
  - C. The financial capital held by an organization**
  - D. The total number of employees in a workforce**

## **Answers**

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1. A
2. B
3. C
4. B
5. B
6. C
7. C
8. C
9. B
10. B

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## **Explanations**

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## 1. How is "standard of living" defined?

**A. The amount of wealth and comfort available**

**B. The total population of a region**

**C. The poverty line in an economy**

**D. The number of goods produced in a year**

The term "standard of living" is defined as the amount of wealth and comfort available to an individual or community, encompassing various factors such as income, employment, class disparity, poverty rate, and housing affordability. It reflects the quality of life that individuals experience, including access to basic necessities like food, clean water, education, healthcare, and leisure activities. This concept is essential in economics as it helps evaluate the economic well-being of a population and assess the effectiveness of economic policies in improving the quality of life. Other choices relate to different economic concepts: the total population indicates demographic data rather than living conditions; the poverty line specifically quantifies the minimum level of income deemed adequate in a particular country, thus focusing on deprivation rather than overall living standards; while the number of goods produced in a year refers to economic output rather than the comfort or quality of life of individuals. Hence, those options do not capture the broader understanding of "standard of living" as effectively as the correct choice does.

## 2. The term "business cycle" refers to what?

**A. The pattern of workplace productivity**

**B. The series of fluctuations in economic activity**

**C. The duration of business operations**

**D. The cycle of corporate mergers**

The term "business cycle" specifically refers to the series of fluctuations in economic activity that an economy experiences over time. This includes periods of expansion, where economic activity is increasing, and periods of contraction, where it is declining. The business cycle is characterized by changes in GDP, employment levels, and consumer spending, among other economic indicators. Understanding the business cycle is crucial for economists and policymakers as it helps them analyze economic trends and implement appropriate measures to stabilize the economy during downturns or harness growth during expansions. The cycle typically consists of phases such as expansion, peak, contraction, and trough, which are essential for assessing the overall health of the economy. The other options do not encompass the broader economic fluctuations that the business cycle describes. While workplace productivity, business operations duration, and corporate mergers may all play roles in an economy, they do not capture the systematic rise and fall of economic activity that defines the business cycle.

### 3. What are the three main types of unemployment?

- A. Structural, voluntary, and frictional
- B. Cyclical, seasonal, and permanent
- C. Frictional, structural, and cyclical**
- D. Long-term, short-term, and temporary

The three main types of unemployment are frictional, structural, and cyclical, which together help to classify the various reasons individuals may be without work at any given time. Frictional unemployment occurs when individuals are temporarily out of work while transitioning between jobs or entering the workforce for the first time. It reflects the time it takes for job seekers to find a position that matches their skills and preferences. This type of unemployment is generally short-term and is a normal part of a healthy economy. Structural unemployment arises from fundamental shifts in an economy that create a mismatch between the skills that workers possess and the skills that are in demand by employers. This often results from technological advancements, changes in consumer preferences, or other long-term economic changes that can render certain jobs obsolete. It may require workers to undergo retraining or vocational education to secure new employment in changing industries. Cyclical unemployment is closely tied to the business cycle, where the economy experiences downturns or recessions that lead to layoffs and reduced demand for labor. During these periods, businesses may cut back on production and thus need fewer employees, resulting in higher unemployment rates related to the economic climate. Overall, understanding these three types of unemployment is essential for analyzing labor market dynamics and the overall health of an

### 4. Which branch of economics studies the economy as a whole?

- A. Microeconomics
- B. Macroeconomics**
- C. Behavioral economics
- D. Development economics

Macroeconomics focuses on the economy as a whole, analyzing large-scale economic factors. This branch studies aggregates such as national income, overall employment rates, inflation, and the total output of the economy, often through indicators like GDP. By examining these large-scale dynamics, macroeconomics aims to understand how economies operate and how they can be influenced by governmental policies and other external factors. Microeconomics, in contrast, looks at individual consumers and businesses, focusing on their behavior and decision-making processes. Behavioral economics studies how psychological factors influence economic decisions, while development economics looks at the economic aspects related to the development of poorer regions and nations. All of these branches play important roles in understanding economic systems, but only macroeconomics is concerned with the overarching performance and trends of the economy as a whole.

**5. Which of the following best describes a monopoly?**

- A. A market with many sellers**
- B. A market with one seller**
- C. A market with no barriers to entry**
- D. A market with perfect competition**

A monopoly is defined as a market structure where a single seller dominates the entire market for a particular good or service. This arrangement allows the monopolist to set prices, control supply, and influence market outcomes without competition. The presence of only one seller means that consumers have no alternatives if they wish to purchase the good or service offered by the monopolist. In this context, the other options highlight characteristics of different market structures. For example, a market with many sellers typically refers to perfect competition, where numerous producers compete to sell similar products, leading to price-taking behavior among them. Furthermore, a market with no barriers to entry suggests conditions conducive to competition, which contradicts the concept of a monopoly that often has significant barriers preventing other firms from entering the market. Lastly, perfect competition features many sellers and standardized products, which is the complete opposite of the monopoly scenario. Thus, the characterization of a monopoly as a market with one seller encapsulates its essence accurately.

**6. What does "deflation" refer to?**

- A. An increase in the price level of goods and services**
- B. A decrease in purchasing power**
- C. A decrease in the general price level of goods and services**
- D. An increase in government spending**

Deflation refers to a decrease in the general price level of goods and services. When deflation occurs, consumers find that the prices of products and services drop over time, which can lead to an increase in the purchasing power of money. As prices fall, the same amount of money can buy more than before, which can stimulate consumption initially; however, prolonged periods of deflation can lead to economic challenges, as consumers may delay spending in anticipation of even lower prices. This concept is crucial to understanding economic cycles and policies, as central banks often strive to avoid deflation and aim to maintain a stable price level to foster economic growth. In contrast, an increase in the price level of goods and services indicates inflation, a decrease in purchasing power is typically associated with inflation rather than deflation, and an increase in government spending does not directly relate to the definition of deflation.

- 7. How can the production of meals at a fast-food restaurant be increased in the short run?**
- A. By adding a new dining room at the restaurant**
  - B. By building a new and larger restaurant**
  - C. By hiring a second shift of workers and staying open later**
  - D. By remodeling the old restaurant and expanding the kitchen**

Increasing the production of meals at a fast-food restaurant in the short run primarily involves utilizing existing resources more efficiently rather than making significant capital investments or changes that require long-term commitments. Hiring a second shift of workers and staying open later represents a direct method to multiply output without the need for extensive renovations, new buildings, or major structural changes. By adding a second shift, the restaurant can operate for more hours with more employees, thereby increasing the number of meals produced per day. This approach leverages the existing infrastructure and staff but ramping up the labor resource allows for greater productivity in the immediate term. On the other hand, the other options involve longer-term investments or structural changes that would not yield immediate benefits, thus making them less suitable for short-run production increases.

- 8. Which level of government employs more people and purchases more goods and services?**
- A. State government**
  - B. Local government**
  - C. Federal government**
  - D. International organizations**

The federal government employs more people and purchases more goods and services compared to state and local governments. This is due to its broad range of responsibilities that include national defense, social security, and various federal programs that require substantial staffing and procurement of resources. The federal government operates numerous agencies and departments, each with extensive workforce and operational budgets, which contribute significantly to overall employment levels and the demand for goods and services. In contrast, while state and local governments also employ a significant number of people and procure goods and services, their scope is more limited to regional and community needs such as education, law enforcement, and infrastructure. International organizations do not primarily function in the same context as government levels and focus on collaboration for global issues, rather than direct employment and purchasing in the manner that federal, state, and local governments do. Thus, the federal government's expansive role enables it to surpass the employment and procurement levels of other governmental entities.

## 9. What does the term "balance of trade" refer to?

- A. The surplus of imports over exports
- B. The difference between the value of a country's exports and imports**
- C. The total value of goods and services produced in a country
- D. The amount of foreign investment in a country's economy

The term "balance of trade" specifically refers to the difference between the value of a country's exports and imports over a certain period of time. This measure is an important indicator of a country's economic health and its trade relationships with other nations. A positive balance of trade, which is referred to as a trade surplus, occurs when a country exports more than it imports, while a negative balance of trade, known as a trade deficit, happens when imports exceed exports. By focusing on the values of goods and services traded internationally, the balance of trade provides insights into how well a country's economy is performing in the global market. Other options address related concepts but do not accurately define the balance of trade. For instance, surplus over imports refers to a specific outcome (trade surplus) rather than the definition of the balance itself. The total value of goods and services produced pertains to gross domestic product (GDP), while foreign investment helps understand external economic influence but is distinct from trade balances.

## 10. What is human capital?

- A. The availability of natural resources in an economy
- B. The economic value of an individual's skills, knowledge, and experience**
- C. The financial capital held by an organization
- D. The total number of employees in a workforce

Human capital refers to the economic value of an individual's skills, knowledge, and experience. This concept encompasses the attributes that people bring to the workforce, which contribute to their productivity and the overall economic performance of organizations and economies. Human capital is critical in determining how effectively individuals can perform tasks, solve problems, and innovate in their work roles. Investments in human capital, such as education and vocational training, enhance an individual's skills and knowledge, thereby increasing their potential productivity and the value they add to their employers. This can lead to higher wages and improved career prospects, as well as benefits for the economy, such as increased competitiveness and growth. The other options do not accurately capture the definition of human capital. Natural resources pertain to the raw materials and environmental assets of an economy, financial capital relates to the funds available for investment or expenditure, and the number of employees in a workforce reflects workforce size rather than the skills or economic potential of those individuals. Understanding human capital is essential in fields like economics and business, as it highlights the importance of investing in people for long-term success.