Principles of Business and Finance (POBF)
Fall 2013
Durham Public Schools
City of Medicine Academy

Instructor: Mr. Brian Elliott, MBA
Final Examination Review

Directions: Use this Final Examination Review Study Guide to help organize your graphic organizers, quizzes and tests in preparation for the NC VOCATS State Examination for this course. Students should use their peer support groups and course instructor to help clarify any objectives they are struggling with or need further instruction. Throughout the exam review period, students will take Practice VOCATS Exams via Elements.

Essential Standard 1.00

Essential Standard 1.00 will help students understand economic systems, economic conditions, and business in the global marketplace.

Objective 1.01

In objective 1.01 students will determine how businesses satisfy needs and wants, and learn the six steps of the economic decision-making process, about the relationship between how economic questions are answered and the type of economic system that may exist in a country, and the self-regulating principles of a market economy.

I. Economics is the study of the decisions made for production, distribution, and consumption of goods and services to satisfy needs and wants. To **satisfy needs and wants** businesses use economic resources to produce, distribute, and sell goods and services. The types of economic resources are:
   A. Capital
   B. Human
   C. Natural

II. The **six steps of economic decision-making process** are:
   A. Defining the problem
   B. Identifying choices
   C. Evaluating the advantages and disadvantages of each choice
   D. Choosing one choice
   E. Acting on the choice
   F. Reviewing the decision

III. The involvement of a nation's government in answering economic questions determines its **economic system**. The economic questions address the allocation of scarce resources.
   A. The three economic questions are:
      1. What to produce?
      2. How to produce?
      3. For whom to produce?
   B. The main types of economic systems and who decides on the economic questions are:
      1. Command (Communist) Economy's government decides.
      2. Market Economy's people determine.
      3. Traditional Economy questions are carried out the same way.
      4. Mixed Economy takes on fundamentals of command and market economies.
   C. The four principles that The United States economic system is based on are: which are:
      1. Competition
      2. Freedom of Choice
      3. Private Property
      4. Profit

IV. Individuals, businesses, and government make buying decisions in a market economy. These buying decisions make a market economy self-regulating. The **self-regulating principles** of a market economy are:
   A. Consumers set demand.
   B. Producers establish supply.
   C. Supply and demand generate competition.
   D. Demand and supply factors influence market (equilibrium) prices.

<u>Objective 1.02</u>

In objective 1.02 students will learn about the economic activities that are measured to determine the conditions of any economy, and how the movement of an economy is classified.

I. **Economic activities** are measured to determine the condition of an economy. The economic activities that may be measured are:
   A. Gross domestic product (GDP)
      1. Consumer spending
      2. Business spending
      3. Government spending
      4. Exports minus imports
   B. GDP per capita
   C. Labor activities
      1. Employment
      2. Productivity
   D. Consumer spending

        1. Personal income
        2. Retail sales
    E. Investment activities
        1. Capital projects
        2. Personal savings
        3. The stock market
        4. The bond market
    F. Borrowing Activities
        1. Government debt
        2. Business debt

II. **Economic conditions** change in phases that make up a business cycle. Economic conditions impact the buying power of consumers and affordability of interest rates.
    A. Phases of the business cycle are:
        1. Prosperity
        2. Recession
        3. Depression
        4. Recovery
    B. Buying power of consumers is affected by:
        1. Inflation
        2. Deflation
        3. Interest rates

Objective 1.03

In objective 1.03 students will determine which factors and regulations businesses must consider when doing operating in the global marketplace, determine the appropriate entry mode for businesses to enter the global marketplace, and identify the role of international business organizations.

I. Global or multinational companies (MNC) operate in several countries. These **companies have to consider several factors and regulations when conducting business in the global marketplace**. These factors are:
    C. Absolute advantage
    D. Comparative advantage
    E. Importing
    F. Exporting
    G. Measuring of trade relations
    H. International currency exchange rate
    I. International business environment
    J. International trade barriers
    K. Encouragement of international trade

II. The **main entry modes for businesses to enter the global marketplace** vary by intent of involvement with daily operations and expected monetary rewards. The main entry modes are:
    A. Franchising

B. Licensing
C. Joint venture

III. The main **international trade organizations** assist multinational companies with global trading. The areas of assistance provided are in regulation, economics, and finance. The main organizations are:
A. International Monetary Fund
B. World Bank
C. World Trade Organization

Essential Objective for 2.00

Essential Standard 2.00 will help students understand the nature of business that will cover the types of business ownership, leadership and management, the production and operations, applications and issues of technology, and lastly responsible actions of conducting business.

Objective 2.01

In objective 2.01 students will understand the characteristics of the types of businesses.

I. Main Types of Business Ownership Table

Type	Sole Proprietorship	Partnership	Corporation
Owner(s)	One person	Two or more people	One or more shareholders (stockholders), who have one vote per share
Manager(s)	May be owner. Owner participates in all day-to-day operations.	Determined by partnership agreement; may be one or more partners.	Managers, board of directors, and shareholders (stockholders)
Formation	1. Begin buying and selling goods or services 2. May vary by state	With a partnership agreement. Varies by state	Filing of an article of incorporation with state government
Advantages	1. Easy to form 2. Complete control of business 3. Recipient of 100% of the profit 4. One time taxation	1. Easy to form 2. More capital and credit available than a sole proprietorship 3. Work load shared 4. Losses shared	1. Capital easy to obtain 2. Limited liability for shareholders 3. Unlimited lifetime 4. Can invest without managing day-to-day operations 5. Decision-making is shared
Disadvantages	1. Limited capital 2. Unlimited liability 3. Limited lifetime of	1. Profits shared 2. Decisions made jointly 3. Unlimited liability	1.Double taxation: profits and earnings 2. Government regulations

	owner	depending on partnership type 4. Limited lifetime 5. Difficult to add partners	3. More difficult to form 4. Operations controlled by shareholders (stockholders) and board of directors instead of original owner(s)

Type	**Sole Proprietorship**	**Partnership**	**Corporation**
Termination	Decision or life of owner	Actions of the partners, bankruptcy, death, and/or court order	May have unlimited lifetime. If needed, determined by charter or article of dissolution.
Source(s) of investment	Personal, gifts, borrowed, and others may vary	Personals of partner(s), gifts, borrowed, and others may vary	Purchase of stocks
Examples of business ownership	Answers will vary.	• South Railroad Limited Partnership • Eden Limited Partnership	• Bank of America Corporation • Lowe's Home Improvement Store
Examples of liabilities	1. **Employment**: Manager fires an employee that missed significant days from work. 2. **Accidents and injuries on premises**: Customer breaks a leg while on business property. 3. **Accidents and injuries on premises**: Driver runs into a building while driving company's car. 4. **Product-related**: Toddlers are easily injured by a sharp edge of a toy. 5. **Errors and omissions**: Employee accidentally damages a customer's property. 6. **Directors and officers**: One food ingredient that may cause cancer is intentionally omitted from package.		

II. Other types of business ownership
  A. Types of partnerships
    1. Dormant partner
    2. General partner
    3. Limited liability partner
    4. Secret partner
    5. Silent partner
  B. Specialized corporations
    1. Subchapter/S-corporation
    2. Limited liability company
    3. Nonprofit corporation
  C. Cooperatives
  D. Franchise

Objective 2.02

In objective 2.02 students will learn how management functions, levels, and styles are classified. In addition students will learn about the classification of leadership styles and activities of human resources management. In objective

I. Management is the process of efficient and productive operation to accomplish the goals of a business. **Management is classified as functions, levels, and styles.**
   A. The five **functions** of management are:
      1. Planning
      2. Organizing
      3. Staffing
      4. Implementing
      5. Controlling
   B. The **levels** of management are:
      1. Top management
      2. Mid-management
      3. Supervisors
      4. Management by others
   C. The management **styles** are:
      1. Tactical
      2. Strategic
      3. Mixed

II. Leadership is the ability to inspire individuals in order to meet the goals of a business. **The classifications of leadership styles are:**
   A. Autocratic
   B. Democratic
   C. Open or Laissez-faire

III. Human resources management is an approach of managing employees to collectively achieve the objectives of a business. **The activities of human resources management are**:
   A. Planning, staffing, recruiting, and hiring
   B. Managing compensation and benefits
   C. Managing performance of employees

Objective 2.03

In objective 2.03 students will learn about the types of business production, difference among manufacturing procedures, the classification of production planning and manufacturing procedures.

I. Businesses use products and services to produce other goods and services to be sold to customers. The **types of production** are:
   A. Extraction and cultivation
   B. Processing
   C. Manufacturing

II. A manufacturing process includes several businesses using products or raw material to create other products to be used by customers. **Manufacturing procedures** differ according to the number of products to be produced or the characteristic of products. The **types of manufacturing procedures** are:
    A. Mass production
    B. Custom manufacturing
    C. Materials processing
III. **The planning of production and manufacturing of goods and services** for efficiency include:
    A. Production activities:
        1. Product development
        2. Production planning
        3. Inventory management
    B. Manufacturing procedures:
        1. Improving the work area
        2. Improving manufacturing by Continuous Process Improvement.
IV. The **types of business operations** vital for businesses to plan and manage in order to remain viable are:
        1. Facilities management
        2. Logistics
        3. Scheduling
        4. Safety and security

Objective 2.04

In objective 2.04, students understand the business use of technology and the common concerns of businesses using technology.

I. Many businesses use technology to obtain information or to improve efficiency and productivity. The common applications of technology used by many businesses are:
    A. Artificial intelligence (AI)
    B. Computer-aided design (CAD)
    C. E-commerce
    D. Expert systems
    E. Management information systems (MIS)
    F. Robotics
    G. Telecommuting
II. Common **areas of concerns for using technology** are:
    A. Employment trends
    B. Health and safety
    C. Computer crime
    D. Privacy

Objective 2.05

In objective 2.05 students will learn how businesses are socially responsible and how the government protects businesses, individuals, and workers while they are conducting business. Also students will understand how the Consumer Bills of Rights protects consumers and government actions for regulating and assisting businesses.

I. **Business practices** that positively impact communities are **socially responsible** actions.
   A. Social responsibilities commonly addressed by businesses are:
      1. Environmental protection
      2. Workplace diversity
      3. Job safety
      4. Employee wellness
   L. Business ethics guide the actions of businesses, which usually include guidelines that address:
      1. Is the action legal?
      2. Does the action violate professional or company standards?
      3. Who is affected by the action and how?

II. The **government protects businesses, individuals, and workers** while they are conducting business. The protections provided are:
      1. Safe work environment
      2. Contract enforcement
      3. Intellectual property

III. The **Consumer Bill of Rights** protects consumers against unfair business practices. Consumers have rights:
   A. To be informed
   B. To safety
   C. To choose
   D. To be heard
   E. To a remedy
   F. To consumer education
   G. To service

IV. The **government regulates practices and assists** businesses through:
   A. Regulating utility companies
   B. Promoting fair competition
   C. Assisting businesses by:
      1. Providing demographic information
      2. Buying goods and services
      3. Employing workers

Essential Standard 3.00

Essential Standard 3.00 will help students understand the basic role of marketing in business and the buying behaviors of consumers.

Objective 3.01

Objective 3.01 will help students to understand the classifications of the functions of marketing, the impact of marketing research to creating and improving goods/products and services, the factors and components that influence the selling price of goods/products and services, and the classification of the channels of distribution and the types of promotion.

I. The marketing process includes a variety of activities that are organized into functions. The classification of **marketing functions** are:
   A. Marketing-information management
   B. Product/service management
   C. Pricing
   D. Place (Distribution)
   E. Selling
   F. Financing
   G. Promotion

II. Businesses use marketing research to obtain information about experiences of customers and characteristics of goods/products or services in order to create or improve them.

Characteristics of goods/products and services

Similar	**Different**	
Goods/Products Services	**Goods/Products**	**Services**
1. Meet the needs or satisfaction of a target market 2. Include a mix of the marketing elements: product, price, promotion, and place (distribution)	Tangible Non-perishable Separable Easier to market More control over quality	Intangible Perishable Inseparable More difficult to market Less control over quality

III. The value and price of products and services are influenced by price factors and components. The components of a price are the:

Selling price=product costs + operating expenses + profit.

IV. The Channel of distribution is imperative to ensuring goods/products and services reach intended final consumers. The two types of channel of distribution are:
    A. Direct
    B. Indirect
V. Promotion is a means to inform, persuade, or remind customers about goods/ products and services. The two main types of promotion are:
    A. Personalized
    B. Mass

Objective 3.02

Objective 3.02 will allow students to learn about the steps of developing a marketing strategy and understand the consumer decision-making process, the major sources of consumer information, and the classification of shopping locations.

I. A marketing strategy provides vital information on how a business will meet its goals of satisfying customers that will result in making sales and profits. The **steps of developing a marketing strategy** are:
    A. Identify a target market
    B. Create a marketing mix
II. Consumers use the consumer decision-making process in order to make decisions on purchases. The **steps in the consumer decision-making process** are:
    A. Recognize a need or want
    B. Gather information
    C. Select and evaluate alternatives
    D. Make a purchase decision
    E. Determine the effectiveness of the decision
III. Consumers use information sources to assist them with the consumer decision-making process. The **major sources of consumer information** are classified as:
    A. Product testing organizations
    B. Media sources
    C. Government agencies
    D. Business sources
    E. Personal contacts
IV. Competitive markets and technology infrastructures provide consumers with a variety of shopping locations. **Shopping locations** are classified as:
    A. Traditional retailers
    B. Contemporary retailer
    C. Non-Store retailers

Essential Standard 4.00

Essential Standard 4.00 will help students understand financial management in business, the banking system, and saving and investing options for clients.

Objective 4.01

In objective 4.01 students will learn the times when businesses should conduct financial planning and actions performed.

I. Businesses address financial questions by regularly doing financial planning. The **phases when businesses conduct financial planning** are:
   A. Start-up
   B. Operation
   C. Expansion

II. Businesses actions of **financial planning** may consist of:
   A. Developing one or more of the three types of **business budgets**:
      1. Start-up
      2. Operating
      3. Cash
   B. Using **financial records** to complete **financial statements**:
      1. Balance sheet
      2. Income statement
   C. Using **financial statement information to make financial decisions based on the main financial performance ratios**:
      1. Current
      2. Debt to equity
      3. Return on equity
      4. Net income

Objective 4.02

In objective 4.02 students will understand how financial institutions are classified and be able to compare services offered by the institutions. Students will learn about common payment services provided by financial institutions. In addition, students will understand how the Federal Reserve System operates.

I. The main function of financial institutions is to coordinate the flow of money among surplus and deficit activities. **Financial institutions are classified** as:
   A. Depository
   B. Non-depository

II. Financial institutions are compared by specific characteristics. The **characteristics of financial institutions** are:
   A. Services offered

1. Savings
2. Payments
3. Lending
4. Electronic banking
5. Storage of valuables
6. Investment advice
7. Management of trusts

B. Safety
C. Convenience
D. Fees and charges
E. Restrictions

III. Common **payment services provided by financial institutions** are:
A. Electronic payments
B. Checking accounts
C. Certified checks
D. Cashier's checks
E. Traveler's checks
F. Money orders

IV. National banks and any state banks that choose to join the **Federal Reserve System** (Fed) are supervised and regulated to serve the public efficiently. Services provided by the Fed are:
A. Supervises banks
B. Participates in open market activities
C. Acts as a clearinghouse
D. Holds reserves
E. Approves bank mergers
F. Supplies paper currency
G. Manages the discount rate

Objective 4.03

In objective 4.03 students will understand how investors determine the appropriate saving and investing options for them. Students will also learn about factors to consider when evaluating saving and investing options.

I. Appropriate **saving and investing options** depend on the investors' time and risk tolerance. Saving and investing options are:
A. Savings plans
1. Savings account
2. Certificate of deposit (CD)
3. Money market account

B. Securities include stock investments, bond investments, mutual funds, and exchange-traded funds.
1. Stock investments include:
1. Preferred stock

2. Common stock
2. Bond investments include:
a. Government bonds
a. Municipal bonds
b. U.S. savings bonds
c. Other Federal Securities
2. Corporate bonds
3. Mutual funds
4. Exchange-traded funds
C. Alternative investments options are:
1. Real estate
2. Commodities and futures
a. Agricultural
b. Gold, silver, and precious metals
c. Currency and financial instruments
3. Collectibles

II. Factors investors may consider in **evaluating saving and investing options** are:
A. Safety and risk
B. Potential yield
C. Liquidity
D. Taxes

Essential Standard 5.00

Essential Standard 5.00 will help students understand how businesses use credit and manage risk management.

Objective 5.01

In objective 5.01 students will learn about the main types of credit, the advantages and disadvantages of businesses using credit, the main factors included in calculating the cost of using credit, how creditors determine to whom to grant credit, credit documents commonly used, how credit regulations protect the rights of credit applicants and users, and lastly assistance with credit problems.

I. Credit is the use of someone else's money for a specified period of time. Businesses, the government, and individuals use credit to buy goods and services. The **main types of credit** are:
A. Charge accounts
B. Credit cards
C. Installment credit
D. Consumer loans

II. There are advantages and disadvantages of businesses using credit**.**
A. **Common advantages of businesses** using credit are:
1. Establishing favorable credit rates

2. Keeping business separate from personal expenses
3. Minimizing record-keeping and receipts
4. Keeping track of what employees are spending
5. Earning rewards

B. **Common disadvantages for businesses** using credit are:
1. Experiencing theft of customer records/databases
2. Overbuying by employees
3. Overusing credit

III. Using credit has a cost. Calculating the **cost of credit** includes several factors. The factors are:
A. Interest
1. Simple
2. Installment

B. Maturity date
C. Annual percentage rate

IV. Creditors examine **several factors** about potential debtors when deciding whether to grant them credit. The **main factors examined for granting credit** are:
A. The three C's of credit are:
1. Character
2. Capacity
3. Capital

B. Credit application
C. Documentation of credit data
D. Information provided by credit bureaus

V. Checking loan features and credit activities for errors minimize potential credit problems. Two commonly used **credit documents** that assist with minimizing credit problems are:
A. Credit contract
B. Statement of account

VI. **Regulations** exist to protect rights of credit applicants and rights of credit users from fraudulent and unfair practices.
A. Regulations to protect credit rights during the credit application process are:
1. Truth-in-Lending Law
2. Equal Credit Opportunity Act

B. Regulations to protect credit rights while using credit are:
1. Fair Credit Billing Act
2. Fair Credit Reporting Act
3. Consumer Credit Reporting Reform Act
4. Fair Debt Collections Act
5. Credit Card Accountability, Responsibility, and Disclosure Act

VII. **Credit assistance options** are available to minimize or eliminate credit problems of credit users. Credit assistance available are:
1. Debt repayment plan

2. Credit counseling
3. Bankruptcy

Objective 5.02

In objective 5.02 students will understand the types of risks, how businesses handle risk of loss, why businesses buy insurance, and which uninsurable risks businesses may encounter.

I. The **types of risks** of unsuspected events and losses businesses may face are:
   M. Economic and non-economic
   N. Pure and speculative
   O. Controllable and uncontrollable
   P. Insurable and uninsurable
III. The four possible **ways businesses may manage risks** are:
   A. Avoid
   B. Transfer
   C. Insure
   D. Assume
IV. Businesses share risks with other businesses and obtain financial protection of their assets by purchasing insurance. The three **main categories of insurance purchased by businesses** are:
   A. Personnel
      1. Health
      2. Disability
      3. Life insurance
   B. Property
   C. Business operations
V. The **main categories of uninsurable business risks** are:
   A. Economic conditions
   B. Consumer demand
   C. Actions of competitors
   D. Technology changes
   E. Local factors
   F. Business operations