MCQ Explanation Bank — Every Chapter Question, Fully Explained

For every multiple-choice question in the print book's chapter Quick Checks: why the correct answer is right, why each wrong answer fails, the AP skill it tests, and the trap to avoid. Use this after each chapter, and again on anything you miss.

Chapter 1

Chapter 1 — Q1 Correct answer: D Why D is correct: The grandmother pays for the sneakers (customer/purchaser) while the grandson wears them (consumer/user); the two roles split across two people (EK 1.1.A.2). **Why A is wrong:** She buys but does not use the shoes, so she is not the consumer. **Why B is wrong:** The grandson uses but does not pay, so he is not the customer. **Why C is wrong:** Nike is the seller/producer, not the customer. **AP skill tested:** Apply a concept **Exam trap:** Assuming the buyer and the user are always the same person.

Chapter 1 — Q2 Correct answer: B Why B is correct: She spotted an unmet need (affordable healthy meals near campus) and built a matching offering, which is the definition of problem-solution fit (EK 1.1.A.3). **Why A is wrong:** Value capture is charging above cost, not identifying a need. **Why C is wrong:** Consumer surplus is the gap between willingness to pay and price, not the founding of a business. **Why D is wrong:** Economies of scale are falling per-unit costs at higher volume, unrelated to spotting the need. **AP skill tested:** Apply a concept **Exam trap:** Reaching for a fancier economics term when the scenario simply describes matching a solution to a problem.

Chapter 1 — Q3 Correct answer: A Why A is correct: A business produces and distributes goods/services regardless of size or format, so an Instagram T-shirt shop qualifies (EK 1.1.A.1). **Why B is wrong:** A physical location is not required; virtual businesses count. **Why C is wrong:** Legal incorporation is not required to be a business. **Why D is wrong:** There is no revenue threshold that defines a business. **AP skill tested:** Explain **Exam trap:** Believing a "real" business must be big, registered, or have a storefront.

Chapter 1 — Q4 Correct answer: B Why B is correct: Charging $12 for a taco that costs $4 captures $8 of value — price set above cost to produce is value capture (EK 1.1.B.3). **Why A is wrong:** Value creation is the benefit delivered to the customer, not the price-minus-cost margin. **Why C is wrong:** Market opportunity is an unmet need, not a per-unit margin. **Why D is wrong:** Problem-solution fit describes matching an offering to a need, not the price gap. **AP skill tested:** Interpret data / apply a concept **Exam trap:** Confusing value creation (benefit to buyer) with value capture (margin to seller).

Chapter 1 — Q5 Correct answer: A Why A is correct: The district purchases the laptops (customer) and the students use them (consumer) (EK 1.1.A.2). **Why B is wrong:** The roles are reversed; the buyer is the customer, not the consumer. **Why C is wrong:** Buyer/seller mislabels the students, who do not sell anything. **Why D is wrong:** The district does not produce the laptops (Dell does), so producer/consumer is wrong. **AP skill tested:** Apply a concept **Exam trap:** Swapping the customer and consumer labels under time pressure.

Chapter 1 — Q6 Correct answer: B Why B is correct: Creation attracts customers by delivering benefit, and capture lets the firm charge enough to sustain itself financially — a business needs both (EK 1.1.B.2, 1.1.B.3). **Why A is wrong:** It reverses the roles; creation attracts customers and capture sustains the firm, not the other way around. **Why C is wrong:** Capture alone fails without value that draws customers in. **Why D is wrong:** Neither creation nor capture is a legal requirement. **AP skill tested:** Explain **Exam trap:** Mixing up which mechanism attracts customers and which keeps the business solvent.

Chapter 1 — Q7 Correct answer: A Why A is correct: The customer is describing the worth/benefit the shoes provide to them, which is value (EK 1.1.B.1). **Why B is wrong:** Value capture is the seller's margin, not the buyer's perceived worth. **Why C is wrong:** Per-unit production cost is the firm's cost, not the customer's benefit. **Why D is wrong:** Market price is what everyone charges, not this customer's personal sense of worth. **AP skill tested:** Explain **Exam trap:** Confusing the customer's perceived value with cost or market price.

Chapter 1 — Q8 Correct answer: B Why B is correct: Focusing on serious lifters shows a business selects which customers to serve rather than serving everyone (EK 1.1.A.3). **Why A is wrong:** Businesses do not need to serve every customer; the scenario shows the opposite. **Why C is wrong:** Value can come from quality and focus, not only the lowest price. **Why D is wrong:** There is no legal requirement to specialize. **AP skill tested:** Explain **Exam trap:** Thinking a narrower target market is a weakness rather than a deliberate strategic choice.

Chapter 2

Chapter 2 — Q1 Correct answer: C Why C is correct: Selling at a local craft fair (physical, local) and shipping nationwide on Etsy (virtual, regional/national) means the student operates in both market types at once (EK 1.2.A.1). **Why A is wrong:** It ignores the nationwide Etsy channel. **Why B is wrong:** It ignores the in-person craft fair. **Why D is wrong:** Size does not disqualify a business from operating in a real market. **AP skill tested:** Apply a concept **Exam trap:** Forcing a business into a single market type when it can operate in several simultaneously.

Chapter 2 — Q2 Correct answer: C Why C is correct: Grain that is virtually identical across sellers is a commodity, so this is a commodity market (EK 1.2.B.4). **Why A is wrong:** Differentiated markets feature distinguishable products, the opposite of identical grain. **Why B is wrong:** A monopoly is one seller; here there are many farms. **Why D is wrong:** "Regulated" describes government oversight, not product sameness. **AP skill tested:** Apply a concept **Exam trap:** Overlooking that identical, interchangeable products signal a commodity market.

Chapter 2 — Q3 Correct answer: C Why C is correct: With identical products, buyers choose on price, so commodity sellers compete on efficiency and lowest price (EK 1.2.B.4). **Why A is wrong:** Brand image differentiates and does not fit identical commodities. **Why B is wrong:** Unique features are impossible when products are identical. **Why D is wrong:** Exclusive service is a differentiation play, not a commodity strategy. **AP skill tested:** Explain **Exam trap:** Applying differentiation tactics (brand, features, service) to a commodity where only price and cost matter.

Chapter 2 — Q4 Correct answer: A Why A is correct: Vegan/gluten-free options, service, and atmosphere are quality, features, and service — competing in a differentiated market (EK 1.2.B.5). **Why B is wrong:** The bakery competes on distinctive offerings, not the lowest price. **Why C is wrong:** Nothing here blocks rivals from entering, so it is not a monopoly via barriers. **Why D is wrong:** Efficiency/low cost is a commodity strategy, the opposite of what is described. **AP skill tested:** Apply a concept **Exam trap:** Missing that multiple non-price attributes together define a differentiation strategy.

Chapter 2 — Q5 Correct answer: D Why D is correct: A single exclusive water provider with no substitutes is a monopoly (EK 1.2.B.7). **Why A is wrong:** A commodity market has many sellers of identical goods, not one. **Why B is wrong:** A differentiated market has multiple competing sellers. **Why C is wrong:** Voluntary exchange describes a mutually beneficial transaction, not a market structure. **AP skill tested:** Apply a concept **Exam trap:** Confusing "the city grants exclusivity" with regulation instead of recognizing single-seller monopoly.

Chapter 2 — Q6 Correct answer: D Why D is correct: Per-unit cost falls from $18 to $8 as output rises, so a high-volume incumbent reaches a lower cost than a small entrant — economies of scale acting as a barrier to entry (EK 1.2.B.6). **Why A is wrong:** It reverses the trend; cost falls, not rises, with output. **Why B is wrong:** The cost data supports no claim that all producers must charge the same price. **Why C is wrong:** It reverses who holds the advantage; the small entrant has the higher cost. **AP skill tested:** Interpret data **Exam trap:** Misreading the direction of the cost trend or flipping which firm the scale advantage protects.

Chapter 2 — Q7 Correct answer: D Why D is correct: Voluntary exchange benefits both sides: the café gains revenue and the customer gains value (EK 1.2.A.2). **Why A is wrong:** The customer also benefits by receiving coffee they wanted. **Why B is wrong:** The café also benefits by receiving revenue. **Why C is wrong:** Buyers typically value the good more than the price, so both gain; a price equaling value is not implied. **AP skill tested:** Explain **Exam trap:** Assuming a transaction is zero-sum with only one winner.

Chapter 2 — Q8 Correct answer: B Why B is correct: Offering shows rivals cannot match to win share and profit is building a competitive advantage (EK 1.2.B.1). **Why A is wrong:** A barrier to entry blocks new entrants; here the firm is winning existing customers, not walling off the market. **Why C is wrong:** Voluntary exchange is a single transaction, not a durable edge over rivals. **Why D is wrong:** Prevailing market price is the going rate, not a source of advantage. **AP skill tested:** Apply a concept **Exam trap:** Confusing a competitive advantage (outperforming rivals) with a barrier to entry (blocking rivals).

Chapter 3

Chapter 3 — Q1 Correct answer: C Why C is correct: Tariffs are a trade-policy tool set by government, which is a Political factor (EK 1.3.A.2). **Why A is wrong:** Economic covers conditions like inflation and interest rates, not the policy decision itself. **Why B is wrong:** Legal covers laws and regulations businesses must comply with, not trade policy set by political choice. **Why D is wrong:** Technological covers innovation and infrastructure, unrelated to a tariff. **AP skill tested:** Apply a concept **Exam trap:** Confusing Political (government policy like tariffs) with Legal (specific compliance laws).

Chapter 3 — Q2 Correct answer: A Why A is correct: Streaming and broadband improvements are Technological factors that made Spotify viable (EK 1.3.A.5). **Why B is wrong:** Social covers lifestyle and cultural trends, not infrastructure. **Why C is wrong:** Legal covers regulation, not the technology enabling the model. **Why D is wrong:** Political covers government policy, not broadband capability. **AP skill tested:** Apply a concept **Exam trap:** Overlooking that internet access and innovation rate fall under Technological.

Chapter 3 — Q3 Correct answer: B Why B is correct: Political changes such as subsidies or legalization create or expand industries, opening new careers (EK 1.3.B.1/1.3.B.2). **Why A is wrong:** Eliminating all regulation is unrealistic and not how policy creates opportunity. **Why C is wrong:** Lowering interest rates is an Economic factor, not a Political one. **Why D is wrong:** Automation is a Technological effect, not a political-policy pathway. **AP skill tested:** Explain **Exam trap:** Blaming/crediting the wrong PESTEL factor for job creation.

Chapter 3 — Q4 Correct answer: A Why A is correct: A low-cost (Economic) mobile-only (Technological) plan responds directly to India's income levels and mobile-internet infrastructure (EK 1.3.C.1/1.3.C.2). **Why B is wrong:** No political or legal driver is described in the scenario. **Why C is wrong:** Social and Environmental factors are not what a price-and-device plan targets. **Why D is wrong:** Legal and Environmental do not explain a low-cost mobile plan. **AP skill tested:** Apply a concept **Exam trap:** Picking only one factor when the scenario blends two (price = Economic, device = Technological).

Chapter 3 — Q5 Correct answer: C Why C is correct: Shifting sourcing to new regions is adapting the supply chain to changing environmental conditions (EK 1.3.C.3). **Why A is wrong:** The company is changing its own operations, not lobbying for policy. **Why B is wrong:** It is actively responding, not ignoring, the environmental factor. **Why D is wrong:** Relocating headquarters does not address where beans are grown. **AP skill tested:** Decision-making **Exam trap:** Confusing adaptation (changing operations) with advocacy (changing policy).

Chapter 3 — Q6 Correct answer: C Why C is correct: PESTEL factors shift over time, and those shifts change market attractiveness or create risks, so continuous monitoring is needed (EK 1.3.C.3). **Why A is wrong:** Factors do change, so the premise that they never change is false. **Why B is wrong:** Monitoring is a strategic necessity, not a legal mandate. **Why D is wrong:** Firms of all sizes face shifting external factors, not just multinationals. **AP skill tested:** Explain **Exam trap:** Treating an external scan as a one-time task rather than an ongoing process.

Chapter 3 — Q7 Correct answer: B Why B is correct: Plant-based diets and health-conscious lifestyles are Social factors (lifestyle trends and cultural norms) (EK 1.3.A.4). **Why A is wrong:** Economic covers income and spending power, not diet trends. **Why C is wrong:** Legal covers regulation, not consumer lifestyle choices. **Why D is wrong:** Environmental covers climate and resources, not dietary preferences. **AP skill tested:** Apply a concept **Exam trap:** Confusing a consumer-values trend (Social) with an Environmental or Economic cause.

Chapter 3 — Q8 Correct answer: D Why D is correct: A consumer-protection safety-warning law is a Legal factor (EK 1.3.A.7). **Why A is wrong:** Political is the broader policy climate; here a specific law forces compliance, which is Legal. **Why B is wrong:** Social covers cultural trends, not a mandated warning label. **Why C is wrong:** Technological covers innovation, not a labeling law. **AP skill tested:** Apply a concept **Exam trap:** Blurring Political (policy direction) and Legal (specific enforceable laws).

Chapter 4

Chapter 4 — Q1 Correct answer: D Why D is correct: Blakely noticed a real-world problem by watching how clothing behaved — observing means watching behavior to spot unmet needs (EK 1.4.A.2). **Why A is wrong:** Surveying uses structured questionnaires, not personal observation. **Why B is wrong:** Market research is a broad category; the specific technique here is observation. **Why C is wrong:** Experimentation means testing prototypes, not noticing an existing flaw. **AP skill tested:** Apply a concept **Exam trap:** Defaulting to “market research” when the scenario names a specific idea-generation technique.

Chapter 4 — Q2 Correct answer: A Why A is correct: Flying to hosts to ask open-ended questions is interviewing — direct, in-depth conversations with users (EK 1.4.A.2). **Why B is wrong:** Observing is watching behavior, not asking questions. **Why C is wrong:** Experimentation tests a prototype, which is not happening here. **Why D is wrong:** Technical research investigates technology feasibility, not host experiences. **AP skill tested:** Apply a concept **Exam trap:** Confusing interviewing (asking) with observing (watching).

Chapter 4 — Q3 Correct answer: B Why B is correct: Design thinking begins by identifying and validating that the problem is real with evidence before building anything (EK 1.4.C.1). **Why A is wrong:** Building and launching first skips validation and risks solving a nonexistent problem. **Why C is wrong:** Securing funding is not the first design-thinking step. **Why D is wrong:** Filing patents comes far later, not before understanding the problem. **AP skill tested:** Explain **Exam trap:** Jumping to solutions or funding before confirming the problem exists.

Chapter 4 — Q4 Correct answer: A Why A is correct: A demo video that spiked the waiting list validated demand before Houston built the full product (EK 1.4.C.1). **Why B is wrong:** He deliberately did not build the complete product first. **Why C is wrong:** A viral demo is not a formal survey. **Why D is wrong:** He tested one concept, not multiple simultaneous versions. **AP skill tested:** Apply a concept **Exam trap:** Mistaking a demand-validation demo for a finished product launch.

Chapter 4 — Q5 Correct answer: B Why B is correct: Phase 2 (developing a solution) involves brainstorming, sketching, and prototyping (EK 1.4.C.2). **Why A is wrong:** Researching, hiring, and manufacturing are not the solution-development trio. **Why C is wrong:** Marketing, selling, and distributing come after a solution exists. **Why D is wrong:** Interviewing, surveying, and observing belong to the earlier problem-identification phase. **AP skill tested:** Describe **Exam trap:** Confusing solution-development activities with problem-discovery or go-to-market activities.

Chapter 4 — Q6 Correct answer: A Why A is correct: Stripping Burbn down to only core photo-sharing features is a minimum viable product (MVP) (EK 1.4.C.3). **Why B is wrong:** It succeeded (it became Instagram), so it was not a failed product. **Why C is wrong:** An MVP has only core features, not a full mass-market feature set. **Why D is wrong:** It is a launched product, not merely a brainstorming exercise. **AP skill tested:** Apply a concept **Exam trap:** Overlooking that a deliberately minimal, core-features-only version is the definition of an MVP.

Chapter 4 — Q7 Correct answer: B Why B is correct: Committing $40,000 with no guarantee of sales is entrepreneurial risk — resources spent with no assured revenue or profit (EK 1.4.B.1). **Why A is wrong:** There is explicitly no guaranteed return; the opposite is stated. **Why C is wrong:** Value capture is charging above cost, not the exposure to loss. **Why D is wrong:** Economies of scale concern falling per-unit cost, not uncertainty of revenue. **AP skill tested:** Apply a concept **Exam trap:** Naming a benefit (value capture, scale) when the scenario describes downside risk.

Chapter 4 — Q8 Correct answer: A Why A is correct: Entrepreneurs are driven by potential profits, the satisfaction of solving a problem, and passion for the idea (EK 1.4.B.2). **Why B is wrong:** No law requires anyone to start a company. **Why C is wrong:** Success is never guaranteed; that is the nature of the risk. **Why D is wrong:** Financial risk cannot be fully eliminated in a new venture. **AP skill tested:** Explain **Exam trap:** Assuming entrepreneurs act on guarantees rather than incentives that outweigh accepted risk.

Chapter 5

Chapter 5 — Q1 Correct answer: A Why A is correct: A unique capability rivals cannot match is a core competency and a source of competitive advantage (EK 1.5.A.2). **Why B is wrong:** A core value is a guiding belief, not a capability. **Why C is wrong:** A vision statement describes a future aspiration, not a present skill. **Why D is wrong:** A mission statement describes what the company does now and for whom, not a distinctive capability. **AP skill tested:** Apply a concept **Exam trap:** Confusing a core competency (what the firm does uniquely well) with core values (its beliefs).

Chapter 5 — Q2 Correct answer: B Why B is correct: Posting the mission on the site, in training, and to investors is communicating vision and mission to internal and external stakeholders (EK 1.5.B.3). **Why A is wrong:** No unique capability is being built; the mission is being shared. **Why C is wrong:** Nothing about a dual social/profit model is described. **Why D is wrong:** Communicating a mission is not the same as setting quarterly profit goals. **AP skill tested:** Apply a concept **Exam trap:** Missing that reaching both employees and investors signals internal and external communication.

Chapter 5 — Q3 Correct answer: D Why D is correct: Donating a pair per sale while still generating profit is a social enterprise — pursuing profit and social objectives together (EK 1.5.C.2). **Why A is wrong:** A nonprofit does not distribute profit to owners; this firm does earn profit. **Why B is wrong:** A traditional for-profit lacks the built-in social mission. **Why C is wrong:** It is a private company, not a government agency. **AP skill tested:** Apply a concept **Exam trap:** Forcing a “profit + social good” firm into the nonprofit or plain for-profit box.

Chapter 5 — Q4 Correct answer: C Why C is correct: A nonprofit reinvests its surplus into the organization's mission rather than paying it out (EK 1.5.C.3). **Why A is wrong:** Nonprofits have no shareholders to receive distributions. **Why B is wrong:** Surplus is reinvested in the mission, not refunded to patients. **Why D is wrong:** Surplus is not a CEO bonus; it funds the mission. **AP skill tested:** Explain **Exam trap:** Assuming any leftover money must be distributed the way a for-profit would distribute profit.

Chapter 5 — Q5 Correct answer: B Why B is correct: Individuals should use the company's core values and competencies to guide decisions when values and costs conflict (EK 1.5.A.3, 1.5.A.4, 1.5.A.5). **Why A is wrong:** Always choosing the cheapest option ignores the stated values. **Why C is wrong:** Core values are decision guides, not just marketing. **Why D is wrong:** The employee, not the supplier, should make the values-based decision. **AP skill tested:** Decision-making **Exam trap:** Treating stated core values as slogans rather than active decision criteria.

Chapter 5 — Q6 Correct answer: C Why C is correct: The only correct pairing is nonprofit → surplus reinvested into the mission (EK 1.5.C.3). **Why A is wrong:** A traditional business reinvests in itself or pays owners, not social programs. **Why B is wrong:** A social enterprise blends profit and mission; it does not distribute all surplus to owners. **Why D is wrong:** Nonprofit surplus funds the mission, not equal employee payouts. **AP skill tested:** Explain **Exam trap:** Mismatching organization type to how it handles surplus.

Chapter 5 — Q7 Correct answer: A Why A is correct: An aspirational statement about the future the company hopes to create is a vision statement (EK 1.5.B.1). **Why B is wrong:** A core competency is a capability, not a future aspiration. **Why C is wrong:** A mission statement describes present purpose and customers, not a future ideal world. **Why D is wrong:** A code of conduct sets behavior rules, not aspirations. **AP skill tested:** Apply a concept **Exam trap:** Confusing vision (future aspiration) with mission (present purpose).

Chapter 5 — Q8 Correct answer: D Why D is correct: Fundamental beliefs that guide how a company operates and decides are its core values (EK 1.5.A.1). **Why A is wrong:** Core competencies are capabilities, not guiding beliefs. **Why B is wrong:** A mission statement states what the company does, not its beliefs. **Why C is wrong:** Profit goals are financial targets, not values. **AP skill tested:** Apply a concept **Exam trap:** Confusing core values (beliefs) with core competencies (capabilities).

Chapter 6

Chapter 6 — Q1 Correct answer: C Why C is correct: Employees opened fake accounts because the incentive structure rewarded new account openings regardless of how they were obtained (EK 1.6.A.1). **Why A is wrong:** They knew how to open real accounts; training was not the driver. **Why B is wrong:** The problem was the incentive, not missing written policies. **Why D is wrong:** Customers did not request the fake accounts. **AP skill tested:** Explain **Exam trap:** Blaming training or policy gaps instead of the incentives that rewarded the behavior.

Chapter 6 — Q2 Correct answer: D Why D is correct: A CEO personally refusing an unethical supplier demonstrates the standard for others, which is leadership modeling (EK 1.6.A.2). **Why A is wrong:** Cost-benefit analysis weighs costs and benefits; here the leader is setting an example. **Why B is wrong:** This is an incentive-structure success at most, not a failure. **Why C is wrong:** The CEO is upholding, not violating, a code of conduct. **AP skill tested:** Apply a concept **Exam trap:** Overlooking that a leader's visible ethical action is "modeling," not an analysis or a rule.

Chapter 6 — Q3 Correct answer: B Why B is correct: An ethical dilemma involves a conflict between a core value and other values or goals (EK 1.6.B.1). **Why A is wrong:** Dilemmas need not involve illegal activity. **Why C is wrong:** Dilemmas can affect internal stakeholders too, not only external ones. **Why D is wrong:** A dilemma lacks a clear right answer; that is what makes it a dilemma. **AP skill tested:** Explain **Exam trap:** Treating any bad decision as a dilemma; a true dilemma is a genuine values conflict without an obvious answer.

Chapter 6 — Q4 Correct answer: A Why A is correct: Internal stakeholders include owners, managers, and employees, so the warehouse employee qualifies (EK 1.6.B.2). **Why B is wrong:** Local government is an external stakeholder. **Why C is wrong:** A community group is external to the company. **Why D is wrong:** A customer is an external stakeholder. **AP skill tested:** Apply a concept **Exam trap:** Confusing internal stakeholders (inside the org) with external ones (customers, regulators, community).

Chapter 6 — Q5 Correct answer: D Why D is correct: The vision-consistent approach chooses the action aligning with stated values, so the firm recalls the flawed toy even at high cost (EK 1.6.B.3). **Why A is wrong:** A partial recall based only on state laws contradicts a vision of safe play for every child. **Why B is wrong:** Ignoring the flaw directly violates the stated vision. **Why C is wrong:** Waiting for a government order abandons the values-driven standard. **AP skill tested:** Decision-making **Exam trap:** Letting cost or legal minimums override a values-based decision.

Chapter 6 — Q6 Correct answer: C Why C is correct: Cost-benefit analysis for an ethical dilemma weighs costs and benefits across all stakeholder groups, both financial and non-financial (EK 1.6.B.3). **Why A is wrong:** Considering only owners ignores other affected groups. **Why B is wrong:** Considering only customers is too narrow. **Why D is wrong:** Considering only legal penalties omits non-financial and broader stakeholder impacts. **AP skill tested:** Explain **Exam trap:** Narrowing an ethical cost-benefit analysis to one group or to money alone.

Chapter 6 — Q7 Correct answer: B Why B is correct: A key business benefit of ethical behavior is that it helps attract customers and employees and builds brand loyalty (EK 1.6.A.3). **Why A is wrong:** Ethics does not eliminate competitors. **Why C is wrong:** Ethical conduct does not free a firm from regulation. **Why D is wrong:** Ethical choices do not always yield the largest short-term savings; they can cost more short-term. **AP skill tested:** Explain **Exam trap:** Overstating the payoff of ethics (eliminating rivals or regulation) instead of the real benefits: trust and loyalty.

Chapter 6 — Q8 Correct answer: A Why A is correct: A written code of conduct, ethics training, and clear repercussions are formal mechanisms for encouraging ethical conduct (EK 1.6.A.2). **Why B is wrong:** Raising commissions is an incentive change, not an ethics mechanism, and could worsen behavior. **Why C is wrong:** Hoping for good choices is no mechanism at all. **Why D is wrong:** A CEO modeling honesty is leadership modeling, which the stem explicitly excludes. **AP skill tested:** Apply a concept **Exam trap:** Selecting leadership modeling (D) when the question asks specifically for a formal mechanism.

Chapter 7

Chapter 7 — Q1 Correct answer: D Why D is correct: One owner who keeps all profit but faces personal exposure to business losses runs a sole proprietorship with unlimited personal liability (EK 1.7.A.1, 1.7.A.3). **Why A is wrong:** A corporation is a separate legal entity that shields personal assets. **Why B is wrong:** An LLC provides limited liability, so personal savings would be protected. **Why C is wrong:** A partnership requires two or more owners; Maria works alone. **AP skill tested:** Apply a concept **Exam trap:** Overlooking that a single owner with personal-asset exposure signals a sole proprietorship.

Chapter 7 — Q2 Correct answer: B Why B is correct: In a general partnership all partners bear unlimited personal liability, even for debts one partner incurred (EK 1.7.A.3). **Why A is wrong:** Liability is not limited to the partner who created the debt. **Why C is wrong:** A general partnership is not a liability-shielding entity like a corporation. **Why D is wrong:** Partnership debts are enforceable; they are not void because one partner was unaware. **AP skill tested:** Explain **Exam trap:** Assuming each partner is liable only for debts they personally created.

Chapter 7 — Q3 Correct answer: A Why A is correct: Assigning the math expert to teaching and the marketer to promotion is dividing roles according to partner strengths (EK 1.7.B.2). **Why B is wrong:** Outsourcing sends work to an external firm; here the partners do it themselves. **Why C is wrong:** Functional expertise within departments describes larger org structure, not two partners splitting roles. **Why D is wrong:** Separating ownership from management is a corporate feature, not what this illustrates. **AP skill tested:** Apply a concept **Exam trap:** Confusing partners splitting roles internally with outsourcing to outsiders.

Chapter 7 — Q4 Correct answer: C Why C is correct: Hiring an outside firm for payroll and tax filing is outsourcing a non-core function to external specialists (EK 1.7.C.4). **Why A is wrong:** Functional expertise is in-house skill, not hiring an external firm. **Why B is wrong:** Departmental specialization is internal organization, not external hiring. **Why D is wrong:** Vertical integration is owning more of the supply chain, not contracting out payroll. **AP skill tested:** Apply a concept **Exam trap:** Mislabeling the use of an external provider as internal specialization.

Chapter 7 — Q5 Correct answer: B Why B is correct: Finance analyzes investments and allocates capital, so it evaluates a $10 million warehouse decision (EK 1.7.D.5). **Why A is wrong:** Accounting records transactions and reports results; it does not make the investment call. **Why C is wrong:** Operations runs day-to-day production, not capital-investment analysis. **Why D is wrong:** HR manages people, not investment decisions. **AP skill tested:** Apply a concept **Exam trap:** Confusing Finance (deciding whether to invest) with Accounting (recording what happened).

Chapter 7 — Q6 Correct answer: C Why C is correct: Developing a new drug is R&D creating new products and innovating (EK 1.7.D.2). **Why A is wrong:** Recording transactions is Accounting. **Why B is wrong:** Managing benefits is HR. **Why D is wrong:** Promoting products is Marketing. **AP skill tested:** Apply a concept **Exam trap:** Matching an activity to the wrong department function.

Chapter 7 — Q7 Correct answer: C Why C is correct: A shareholder whose loss is capped at their investment while personal assets stay protected has limited liability, the defining feature of a corporation (EK 1.7.A.4). **Why A is wrong:** A sole proprietorship carries unlimited personal liability. **Why B is wrong:** A general partnership also carries unlimited personal liability. **Why D is wrong:** “Artisan business” is a production style, not a liability-defining structure. **AP skill tested:** Apply a concept **Exam trap:** Forgetting that limited liability (loss capped at investment) uniquely signals a corporation.

Chapter 7 — Q8 Correct answer: A Why A is correct: Accounting records financial transactions and prepares statements like the income statement and balance sheet (EK 1.7.D.4). **Why B is wrong:** HR manages employees, not financial statements. **Why C is wrong:** Operations handles production, not the books. **Why D is wrong:** R&D innovates products, not financial reporting. **AP skill tested:** Apply a concept **Exam trap:** Confusing Accounting (records and reports) with Finance (plans and invests).

Chapter 8

Chapter 8 — Q1 Correct answer: D Why D is correct: Small-scale, handmade, unique mugs at low volume define artisan production (EK 1.8.A.1). **Why A is wrong:** Mass production is high-volume and standardized, the opposite of 20 unique mugs a week. **Why B is wrong:** Outsourcing sends work to an outside firm; the potter makes them personally. **Why C is wrong:** Vertical integration is owning supply-chain stages, not a production style. **AP skill tested:** Apply a concept **Exam trap:** Confusing a handcrafted, low-volume process with outsourcing or integration.

Chapter 8 — Q2 Correct answer: D Why D is correct: Prioritizing freshness and consistency over a lower price means the restaurant is selecting on quality (EK 1.8.B.4). **Why A is wrong:** It pays 15% more, so cost is not the priority. **Why B is wrong:** Nothing about convenience is described. **Why C is wrong:** Efficiency concerns cost/speed, not ingredient freshness. **AP skill tested:** Interpret data / apply a concept **Exam trap:** Assuming the cheaper supplier is always chosen; here quality outranks cost.

Chapter 8 — Q3 Correct answer: B Why B is correct: Uber runs a services supply chain, coordinating drivers (people), the app/GPS (resources), and the platform (delivery system) (EK 1.8.B.3). **Why A is wrong:** Uber does not move physical goods through global distribution. **Why C is wrong:** It is standardized ride-matching, not high-customization artisan work. **Why D is wrong:** It is not a mass-production goods process. **AP skill tested:** Apply a concept **Exam trap:** Forcing a service business into a physical-goods supply-chain model.

Chapter 8 — Q4 Correct answer: D Why D is correct: Bulk buying, distribution scale, and squeezing supplier prices support a low-price strategy (EK 1.8.C.1). **Why A is wrong:** A barrier strategy blocks competitors; Walmart is driving down cost, not walling off the market. **Why B is wrong:** The focus is low cost, not premium quality. **Why C is wrong:** Artisan strategy is small-scale and handmade, the opposite of Walmart's scale. **AP skill tested:** Apply a concept **Exam trap:** Confusing aggressive cost-cutting (low-price strategy) with barrier or quality strategies.

Chapter 8 — Q5 Correct answer: C Why C is correct: An exclusive deal that prevents rivals from using the model is a barrier strategy through exclusive agreements (EK 1.8.C.3). **Why A is wrong:** Artisan production is a handmade production style, not an exclusivity tactic. **Why B is wrong:** Mass production scaling is about volume, not blocking rivals. **Why D is wrong:** High-quality sourcing is about materials, not locking out competitors. **AP skill tested:** Apply a concept **Exam trap:** Missing that "prevents any competitor from using" signals a barrier strategy.

Chapter 8 — Q6 Correct answer: A Why A is correct: Sourcing costlier organic and recycled materials supports a high-quality strategy (EK 1.8.C.2). **Why B is wrong:** Paying more for premium inputs is not a low-price strategy. **Why C is wrong:** Nothing here blocks competitors, so it is not a barrier strategy. **Why D is wrong:** Premium sourcing is not a mass-production strategy. **AP skill tested:** Apply a concept **Exam trap:** Assuming higher input cost is inefficiency rather than a deliberate quality play.

Chapter 8 — Q7 Correct answer: B Why B is correct: A goods supply chain flows raw materials → manufacturing → warehousing → distribution → customer (EK 1.8.B.2). **Why A is wrong:** It puts manufacturing before raw materials, which is impossible. **Why C is wrong:** It runs the chain backward, starting with the customer. **Why D is wrong:** It scrambles the order, placing the customer before manufacturing. **AP skill tested:** Describe **Exam trap:** Misordering the supply-chain stages, especially placing manufacturing before raw materials.

Chapter 8 — Q8 Correct answer: A Why A is correct: Choosing mass production because customers want low prices and the firm excels at high-volume factories reflects customer priorities and core competencies (EK 1.8.A.2). **Why B is wrong:** No government regulation requires mass production. **Why C is wrong:** Individual worker preferences do not drive the production-process choice. **Why D is wrong:** No legal barrier prevents artisan production; the choice is strategic. **AP skill tested:** Explain **Exam trap:** Attributing a strategic production choice to regulation or personal preference instead of customer needs and firm strengths.

Chapter 9

Chapter 9 — Q1 Correct answer: D Why D is correct: Age, sex, and location are measurable population characteristics — demographic data (EK 2.1.A.3). **Why A is wrong:** Anecdotal evidence is informal individual stories, not measured population data. **Why B is wrong:** Qualitative feedback is descriptive opinion, not quantifiable segments. **Why C is wrong:** Psychographic data covers values and interests, not age/sex/location. **AP skill tested:** Apply a concept **Exam trap:** Confusing demographic (who people are) with psychographic (what people value) data.

Chapter 9 — Q2 Correct answer: C Why C is correct: Values, interests, activities, and design preferences are psychographic traits (EK 2.1.A.3). **Why A is wrong:** Demographic data is measurable traits like age and location, not values. **Why B is wrong:** Financial data covers income and spending figures, not lifestyle values. **Why D is wrong:** Geographic data is location-based, not values-based. **AP skill tested:** Apply a concept **Exam trap:** Confusing psychographics (values/lifestyle) with demographics or geography.

Chapter 9 — Q3 Correct answer: A Why A is correct: Dividing a market into groups by shared characteristics (type of pet owned) is market segmentation (EK 2.1.B.1). **Why B is wrong:** Target marketing is choosing which segment to pursue, not creating the groups. **Why C is wrong:** Customer profiling builds a fictional representative buyer, not the market split. **Why D is wrong:** Data mining analyzes large datasets for patterns, not dividing a market into buyer groups. **AP skill tested:** Apply a concept **Exam trap:** Confusing segmentation (creating groups) with targeting (choosing a group).

Chapter 9 — Q4 Correct answer: B Why B is correct: A fictional buyer combining demographics, psychographics, and preferences is a customer profile (EK 2.1.B.3). **Why A is wrong:** A market segment is a whole group, not one representative persona. **Why C is wrong:** A psychographic survey is a research instrument, not a persona. **Why D is wrong:** A demographic report is aggregate statistics, not a single fictional buyer. **AP skill tested:** Apply a concept **Exam trap:** Confusing a customer profile (one persona) with a market segment (the full group).

Chapter 9 — Q5 Correct answer: B Why B is correct: Targeted marketing delivers a focused message to the most likely buyers, lowering cost and raising conversion (EK 2.1.B.4). **Why A is wrong:** Targeting is not always free; it still costs money. **Why C is wrong:** Reaching more people overall describes broad marketing, not targeting. **Why D is wrong:** Targeting relies on market research; it does not eliminate the need for it. **AP skill tested:** Explain **Exam trap:** Equating “more effective” with “reaches more people” rather than “reaches the right people efficiently.”

Chapter 9 — Q6 Correct answer: C Why C is correct: CAC = total marketing cost / new customers = $3,000 / 150 = $20 per customer (EK 2.1.C.2). **Why A is wrong:** $3,000 is total spend, not per-customer cost. **Why B is wrong:** 150 is the customer count, not a dollar cost. **Why D is wrong:** $450,000 multiplies instead of divides the two figures. **AP skill tested:** Interpret data / apply a concept **Exam trap:** Multiplying spend by customers instead of dividing spend by customers.

Chapter 9 — Q7 Correct answer: A Why A is correct: CLV = $50/month × 24 months = $1,200 (EK 2.1.C.3). **Why B is wrong:** $600 uses 12 months instead of the full 24. **Why C is wrong:** $50 is one month’s payment, not lifetime value. **Why D is wrong:** $2,400 doubles the correct figure (48 months). **AP skill tested:** Interpret data / apply a concept **Exam trap:** Using the wrong number of months or stopping at a single month’s revenue.

Chapter 9 — Q8 Correct answer: D Why D is correct: Sharing customer data with third parties without consent is a privacy violation (EK 2.1.D.1). **Why A is wrong:** Data monetization done unethically without consent is not “effective”; it is a violation. **Why B is wrong:** CRM manages customer relationships, not the unauthorized sharing of their data. **Why C is wrong:** Market segmentation groups a market; it does not describe misusing personal data. **AP skill tested:** Explain **Exam trap:** Rationalizing unauthorized data sharing as a legitimate monetization tactic instead of a privacy breach.

Chapter 10

Chapter 10 — Q1 Correct answer: B Why B is correct: Buying the same brand automatically, without comparing prices or reading labels, is the definition of a habitual/routine purchasing decision. **Why A is wrong:** Psychological influence involves motivation, perception, or attitude actively shaping a choice; Maya isn't deliberating at all. **Why C is wrong:** A rational decision requires weighing costs and benefits — the exact comparison Maya skips. **Why D is wrong:** Cultural influence stems from shared group values, not from an individual's low-effort routine. **AP skill tested:** apply **Exam trap:** Students see "brand loyalty" and reach for a psychological or emotional label; automatic repeat buying with zero deliberation is specifically routine/habitual behavior.

Chapter 10 — Q2 Correct answer: A Why A is correct: Buying sneakers because friends wear them is peer influence, which is a social factor shaped by reference-group norms. **Why B is wrong:** Personal factors (age, income, lifestyle) come from the individual, not from the peer group driving this choice. **Why C is wrong:** Situational influences are momentary conditions like store layout or time pressure, not ongoing group norms. **Why D is wrong:** Psychological factors are internal (motivation, perception); the trigger here is external social pressure. **AP skill tested:** apply **Exam trap:** "Personal" sounds right because one teenager is buying, but the influence source is the social group — categorize by the driver, not by who pays.

Chapter 10 — Q3 Correct answer: C Why C is correct: Checkout-counter product placement is a situational influence — the physical environment engineered to trigger impulse buys. **Why A is wrong:** Psychological influence works through the buyer's internal state; here the store is manipulating the setting, not the mind directly. **Why B is wrong:** Social influence requires other people's behavior or opinions, which the checkout display does not involve. **Why D is wrong:** Scarcity signals limited supply ("only 1 left"); a candy rack implies no shortage at all. **AP skill tested:** apply **Exam trap:** Impulse buying feels psychological, but the AP category for store layout and placement is situational influence.

Chapter 10 — Q4 Correct answer: B Why B is correct: "Only 1 room left at this price" signals limited availability, the textbook trigger for Cialdini's scarcity principle. **Why A is wrong:** Reciprocity requires the seller giving something first to create obligation; nothing is given here. **Why C is wrong:** Unity relies on shared identity ("people like us"), not on limited supply. **Why D is wrong:** Authority relies on expert or credentialed endorsement, absent from a room-count message. **AP skill tested:** explain **Exam trap:** Any "limited-time" or "limited-quantity" cue is scarcity; don't confuse it with urgency-based reciprocity or FOMO-as-consensus.

Chapter 10 — Q5 Correct answer: D Why D is correct: A dentist in a white lab coat is a credentialed expert, so the ad leverages the authority principle. **Why A is wrong:** Liking relies on similarity, attractiveness, or rapport, not on professional credentials. **Why B is wrong:** Consensus (social proof) shows that many people use the product; one dentist is an expert, not a crowd. **Why C is wrong:** Reciprocity requires an initial gift or favor, which the commercial does not offer. **AP skill tested:** explain **Exam trap:** A single endorsing person can be Liking, Authority, or Consensus — the lab coat and expertise mark this as Authority, not a relatable celebrity (Liking).

Chapter 10 — Q6 Correct answer: A Why A is correct: A free pastry given first creates a sense of obligation that pulls customers back, the essence of reciprocity. **Why B is wrong:** Scarcity depends on limited supply; a free gift to every customer is unlimited. **Why C is wrong:** Consistency depends on a prior commitment the customer made, not on a gift they received. **Why D is wrong:** Unity requires shared group identity, which a one-time free pastry does not build. **AP skill tested:** apply **Exam trap:** A "free" offer can look like a sales promotion, but when the free item is given first to create obligation, the principle is reciprocity.

Chapter 10 — Q7 Correct answer: C Why C is correct: A members-only “Runners’ Circle” builds shared group identity (unity), and early access plus group runs reinforce ongoing commitment to the brand (consistency). **Why A is wrong:** There is no expert authority, and membership is open to those who join, so it is not scarcity-driven. **Why B is wrong:** Reciprocity needs an upfront gift and liking needs personal rapport; the club is built on belonging, not a favor. **Why D is wrong:** Consensus needs visible crowd behavior and scarcity needs limited supply — neither is the club’s core mechanism. **AP skill tested:** explain **Exam trap:** Two-principle questions punish stopping at the first plausible match; a branded community is unity, and the repeat engagement it drives is consistency.

Chapter 10 — Q8 Correct answer: D Why D is correct: Jamie committed publicly to the challenge and built an identity around finishing; quitting would clash with that self-image, so consistency drives her to continue. **Why A is wrong:** Reciprocity would require Jamie feeling she owes the app for a gift; the pressure comes from her own prior commitment. **Why B is wrong:** Consensus needs Jamie to be following others’ behavior; her motivation is internal, not crowd-based. **Why C is wrong:** Authority would mean she defers to the app’s expertise, not that she wants to honor her own pledge. **AP skill tested:** explain **Exam trap:** The distractors each name a real Cialdini principle to bait a keyword match; the phrase “act in alignment with her commitment” is the consistency signal.

Chapter 11

Chapter 11 — Q1 Correct answer: A Why A is correct: “Why” questions about preferences and motivations call for qualitative data, which interviews are designed to capture. **Why B is wrong:** Quantitative sales reports show what sold, not the reasons behind the preference. **Why C is wrong:** Census secondary data describes populations, not why these customers prefer sourdough. **Why D is wrong:** A taste-test experiment yields quantitative outcomes, still not the reasoning the owner wants. **AP skill tested:** apply **Exam trap:** “Data” nudges students toward numbers; when the question asks *why*, the answer is qualitative even though other options list valid research types.

Chapter 11 — Q2 Correct answer: C Why C is correct: Viability tests whether a product can make money; costs exceeding revenue is a viability failure. **Why A is wrong:** Desirability is confirmed — customers love the app. **Why B is wrong:** Feasibility asks whether the product can be built and run; the servers work, so feasibility passes. **Why D is wrong:** Market research is a process, not one of the three tests a product passes or fails. **AP skill tested:** apply **Exam trap:** Feasibility and viability blur together; feasibility is “can we build it,” viability is “can we profit from it.”

Chapter 11 — Q3 Correct answer: B Why B is correct: A testable prediction comparing two groups’ likely behavior is a hypothesis. **Why A is wrong:** A conclusion comes after data is analyzed; this statement precedes testing. **Why C is wrong:** A qualitative finding reports observed feelings/themes, not an untested prediction. **Why D is wrong:** A secondary source is pre-existing published data, not a claim the researcher formulates to test. **AP skill tested:** explain **Exam trap:** A confident, specific claim reads like a conclusion; if it is stated *before* the study as something to test, it is a hypothesis.

Chapter 11 — Q4 Correct answer: C Why C is correct: Line graphs are built to show trends over time, ideal for two years of monthly revenue. **Why A is wrong:** Pie charts show parts of a single whole, not change over time. **Why B is wrong:** Bar charts compare discrete categories and are clumsier than a line for a continuous time series. **Why D is wrong:** Stacked bars break each period into sub-components — unnecessary for a single revenue figure over time. **AP skill tested:** interpret data **Exam trap:** Bar charts can plot months too, but “changed over time” is the trigger phrase for a line graph.

Chapter 11 — Q5 Correct answer: D Why D is correct: “Don’t you agree that our product is the best?” pushes respondents toward a yes, making it a biased leading question. **Why A is wrong:** The problem is bias, not the qualitative-versus-quantitative distinction. **Why B is wrong:** No rating scale is present, and a scale would not be the flaw. **Why C is wrong:** Sample size is not mentioned; the wording is the defect. **AP skill tested:** explain **Exam trap:** Students hunt for sampling or scale errors; here the flaw lives entirely in the question's leading wording.

Chapter 11 — Q6 Correct answer: D Why D is correct: Mango leads on "definitely buy" (42%) while Ginger-Lime leads on taste (71%), so the only fully supported statement is that Mango has the strongest purchase intent despite Ginger-Lime's top taste score. **Why A is wrong:** It treats the highest taste rating as if it were purchase intent — two different metrics. **Why B is wrong:** Watermelon is lowest on "definitely buy" (10%), so it is not most popular. **Why C is wrong:** A taste score below 60% does not mean a flavor is "disliked"; the data does not support that leap. **AP skill tested:** interpret data **Exam trap:** The table separates purchase intent from taste rating on purpose; conflating the two columns is the intended error.

Chapter 11 — Q7 Correct answer: A Why A is correct: Reviewing existing government and trade-association reports is secondary-source research — using data someone else already collected. **Why B is wrong:** Primary research means collecting new first-hand data, which the brand is avoiding here. **Why C is wrong:** An A/B test is a primary experiment, not a review of published reports. **Why D is wrong:** A focus group is primary qualitative research, again not what is described. **AP skill tested:** explain **Exam trap:** "Reviews reports" is the secondary-source tell; students sometimes label any market-sizing effort as primary research.

Chapter 11 — Q8 Correct answer: C Why C is correct: Randomly splitting visitors between two button colors and comparing purchases is a textbook A/B test. **Why A is wrong:** A focus group gathers a small group for discussion, not a randomized split comparison. **Why B is wrong:** A secondary source is pre-existing data, but this is a live experiment the retailer runs. **Why D is wrong:** A leading survey is a biased questionnaire, not a controlled two-version comparison. **AP skill tested:** explain **Exam trap:** Any "random group A versus random group B, compare results" setup is A/B testing — don't overthink it as a survey.

Chapter 12

Chapter 12 — Q1 Correct answer: B Why B is correct: Confirmed demand (students want it), feasibility (local sourcing), and a profitable price ($3 margin) together define product-market fit. **Why A is wrong:** Ideation is only the idea-generation stage; this company has already validated and priced. **Why C is wrong:** Brand identity is the image and personality of the brand, not evidence of profitable demand. **Why D is wrong:** Market maturity describes a saturated life-cycle stage, not a newly validated product. **AP skill tested:** apply **Exam trap:** All three success signals (desirability, feasibility, viability) confirmed at once equals product-market fit — not just one of them.

Chapter 12 — Q2 Correct answer: C Why C is correct: A distinctive jingle used across a company's ads is a legally protectable trademark element (sound mark). **Why A is wrong:** Annual revenue is a financial figure, not a brand identifier that can be trademarked. **Why B is wrong:** Employee count is an operational fact, not a trademark. **Why D is wrong:** A business model is a strategy, not a distinctive mark identifying the source of goods. **AP skill tested:** apply **Exam trap:** Trademarks include sounds, logos, and slogans — not just names; the "distinctive jingle" is the recognizable brand element.

Chapter 12 — Q3 Correct answer: A Why A is correct: Competitors typically flood in during the Growth stage, once a product has proven demand. **Why B is wrong:** In Introduction the product is new and unproven, so rivals usually hold back. **Why C is wrong:** By Maturity the market is already crowded; competitors entered earlier, in Growth. **Why D is wrong:** In Decline competitors exit the market, not enter it. **AP skill tested:** explain **Exam trap:** Students guess Introduction because "new product," but rivals wait for proof of demand — they pile in during Growth.

Chapter 12 — Q4 Correct answer: C Why C is correct: Near-zero sales growth plus market saturation (most people already own one) is the signature of the Maturity stage. **Why A is wrong:** Introduction has low sales but rapid potential, not a saturated market. **Why B is wrong:** Growth features accelerating sales, the opposite of flattening growth. **Why D is wrong:** Decline shows falling sales; here sales have plateaued, not dropped. **AP skill tested:** interpret data **Exam trap:** Flat growth is Maturity, not Decline — Decline requires actual shrinkage, not a plateau.

Chapter 12 — Q5 Correct answer: D Why D is correct: Aligning brand identity with a genuine environmental vision builds authenticity and customer trust, Patagonia's core equity. **Why A is wrong:** Values alignment does not lower production costs. **Why B is wrong:** Brand alignment shapes perception, not the number of product features. **Why C is wrong:** Strong authentic branding supports premium pricing, not generic-level prices. **AP skill tested:** explain **Exam trap:** The distractors tie branding to costs or features; brand-vision alignment's payoff is trust and authenticity, which are intangible.

Chapter 12 — Q6 Correct answer: A Why A is correct: Brainstorming ideas, reviewing surveys, and consulting an expert on what is possible are all ideation-stage activities. **Why B is wrong:** Validation tests a built prototype against real demand; this owner is still generating and screening ideas. **Why C is wrong:** Messaging crafts how the product is communicated, which comes after the concept exists. **Why D is wrong:** Production is making the finished product, well past idea generation. **AP skill tested:** apply **Exam trap:** Consulting a chef about feasibility feels like validation, but assessing what is possible while ideas are still forming is part of ideation.

Chapter 12 — Q7 Correct answer: B Why B is correct: A statement of who the product is for, what problem it solves, and why it beats rivals is a value proposition. **Why A is wrong:** A trademark is a legal identifier (name, logo), not a positioning statement. **Why C is wrong:** A minimum viable product is a basic working product, not a written statement. **Why D is wrong:** A product life cycle is the sales-over-time model, not a positioning statement. **AP skill tested:** explain **Exam trap:** "Why it is superior to competing options" is the value-proposition tell; don't confuse the statement with the MVP it might describe.

Chapter 12 — Q8 Correct answer: A Why A is correct: In the Introduction stage sales are low and consumers are unaware, so marketing must build awareness that the product exists. **Why B is wrong:** Price cutting to retain loyal customers is a Maturity/Decline tactic, not an Introduction move. **Why C is wrong:** Discontinuing a brand-new product with untapped potential is premature. **Why D is wrong:** "Out-featuring many rivals" is irrelevant when no competitor offers the product yet. **AP skill tested:** apply **Exam trap:** Option D assumes rivals exist, but the stem says no competitor offers it — the Introduction priority is awareness, not competitive feature wars.

Chapter 13

Chapter 13 — Q1 Correct answer: D Why D is correct: Adding a fixed markup to per-unit production cost is the definition of cost-based (cost-plus) pricing. **Why A is wrong:** Value-based pricing sets price by perceived customer value, ignoring the cost formula used here. **Why B is wrong:** Penetration pricing sets a deliberately low launch price, not a cost-plus markup. **Why C is wrong:** Competitive pricing matches rivals' prices, not the firm's own cost. **AP skill tested:** apply **Exam trap:** The word "markup on cost" is the cost-based signature; students sometimes call any markup "value-based."

Chapter 13 — Q2 Correct answer: B Why B is correct: Launching low to grab subscribers fast, then raising prices later, is classic penetration pricing. **Why A is wrong:** Price gouging is exploitative pricing during emergencies, not a strategic low launch. **Why C is wrong:** Value-based pricing keys off perceived value, not a below-competitor launch price. **Why D is wrong:** Cost-based pricing derives price from cost; Disney+ priced against competitors, not its own cost. **AP skill tested:** apply **Exam trap:** Later price increases can look opportunistic (gouging), but a low entry price to build share is penetration pricing.

Chapter 13 — Q3 Correct answer: D Why D is correct: Only $4.75 exceeds the $2.50 unit cost, so only that price guarantees a profit per latte. **Why A is wrong:** $2.50 exactly matches cost, yielding zero profit. **Why B is

wrong: $2.00 is below cost, producing a loss. **Why C is wrong:** $2.49 is a penny under cost, still a loss. **AP skill tested:** apply **Exam trap:** $2.49 and $2.50 sit right at the cost line to bait a careless read; profitability requires price strictly above cost.

Chapter 13 — Q4 Correct answer: C Why C is correct: Charging a premium far above similar production costs reflects perceived brand value — value-based pricing. **Why A is wrong:** Cost-based pricing would track the (similar) production cost, not a premium. **Why B is wrong:** Penetration pricing is a low launch price, the opposite of a premium. **Why D is wrong:** Competitive pricing matches rivals, but Air Jordans are priced well above comparable shoes. **AP skill tested:** apply **Exam trap:** “Production costs are similar to other shoes” is the clue that price is decoupled from cost — value-based, not cost-based.

Chapter 13 — Q5 Correct answer: D Why D is correct: Competitors secretly agreeing to fix a common price is price collusion, which is illegal. **Why A is wrong:** Competitive pricing is independently matching market prices, not a secret agreement. **Why B is wrong:** Price gouging is emergency price-spiking, not a coordinated fixed price. **Why C is wrong:** Price discrimination charges different customers different prices, the opposite of one agreed price. **AP skill tested:** explain **Exam trap:** “Competitive pricing” is bait because the firms are competitors — but the secret agreement makes it collusion.

Chapter 13 — Q6 Correct answer: A Why A is correct: Spiking gas to $12 during a hurricane, where gouging laws apply, is illegal price gouging. **Why B is wrong:** Competitive pricing tracks rivals; an emergency spike is not competitive matching. **Why C is wrong:** “Legal value-based” is contradicted by the stated price-gouging law. **Why D is wrong:** Cost-based pricing follows cost; the hurricane spike is disconnected from cost. **AP skill tested:** apply **Exam trap:** Sellers may frame emergency spikes as “supply and demand,” but in a gouging-law state it is illegal price gouging.

Chapter 13 — Q7 Correct answer: B Why B is correct: Matching the prevailing $9.99 price already charged by rivals is competitive pricing. **Why A is wrong:** Penetration pricing launches *below* competitors; Spotify matched them. **Why C is wrong:** Price gouging is emergency exploitation, irrelevant to a normal streaming launch. **Why D is wrong:** Value-based pricing sets price by perceived value, not by matching the going rate. **AP skill tested:** apply **Exam trap:** Contrast with Q2 (Disney+): matching rivals is competitive pricing, launching below them is penetration.

Chapter 13 — Q8 Correct answer: A Why A is correct: Identical products and buyers who switch on any price rise mean the farmer has little pricing power. **Why B is wrong:** Strong pricing power requires differentiation, which the near-identical corn lacks. **Why C is wrong:** Value-based pricing needs perceived distinct value, impossible with a commodity. **Why D is wrong:** A monopoly has one seller; the market has dozens of competing farmers. **AP skill tested:** interpret data **Exam trap:** “Many identical sellers plus price-sensitive buyers” signals a commodity market with near-zero pricing power.

Chapter 14

Chapter 14 — Q1 Correct answer: C Why C is correct: Selling through independent retail stores places an intermediary between producer and consumer, defining an indirect channel. **Why A is wrong:** A direct channel sells straight to consumers with no middleman, which is not the case here. **Why B is wrong:** B2B means selling to another business as the end customer; retail stores are intermediaries reselling to consumers. **Why D is wrong:** Digital marketing is a promotion method, not a distribution-channel type. **AP skill tested:** apply **Exam trap:** Selling to retailers can look like B2B, but because the retailer resells to consumers it is an indirect consumer channel.

Chapter 14 — Q2 Correct answer: B Why B is correct: Alcohol legally required to pass through a distributor is a legally required distribution channel. **Why A is wrong:** Penetration pricing is a pricing strategy, unrelated to distribution law. **Why C is wrong:** Direct marketing is a promotion method, not a mandated channel. **Why D is**

wrong: The channel is legally mandated, so it is not a voluntary indirect choice. **AP skill tested:** apply **Exam trap:** Option D is tempting because a distributor is an indirect channel, but the law makes it required, not voluntary.

Chapter 14 — Q3 Correct answer: C Why C is correct: Personal selling suits complex, high-value B2B products that need tailored explanation and relationship-building. **Why A is wrong:** Media advertising is broad and impersonal, weak for complex individualized B2B sales. **Why B is wrong:** Sales promotion drives short-term impulse buys, not considered high-value purchases. **Why D is wrong:** Public relations builds image, not one-on-one closing of complex deals. **AP skill tested:** decision-making **Exam trap:** “Complex, high-value, B2B” is the personal-selling trigger; mass tools like advertising don’t fit tailored deals.

Chapter 14 — Q4 Correct answer: D Why D is correct: Emailing a targeted coupon to specific lapsed customers is direct marketing. **Why A is wrong:** Public relations builds image through non-paid, non-sales communication, not a targeted sales coupon. **Why B is wrong:** Media advertising broadcasts to a mass audience, not to named individuals. **Why C is wrong:** Personal selling is face-to-face or one-on-one interaction, not an automated coupon email. **AP skill tested:** apply **Exam trap:** A discount can look like sales promotion, but delivering it to targeted individuals makes it direct marketing.

Chapter 14 — Q5 Correct answer: A Why A is correct: BOGO offers, limited-time discounts, and free samples are short-term incentives — sales promotions. **Why B is wrong:** Direct marketing targets specific individuals; these are broad incentives open to all buyers. **Why C is wrong:** Public relations builds image without a direct purchase push. **Why D is wrong:** Personal selling is one-on-one persuasion, not blanket promotional offers. **AP skill tested:** explain **Exam trap:** Free samples can feel like reciprocity/direct marketing, but as a short-term purchase incentive they are sales promotion.

Chapter 14 — Q6 Correct answer: D Why D is correct: Using click and browsing data to tailor recommendations is personalization enabled by big data. **Why A is wrong:** Price collusion is competitors fixing prices, unrelated to data-driven recommendations. **Why B is wrong:** Indirect distribution is about intermediaries, not personalized marketing. **Why C is wrong:** Public relations builds image; this is targeted product recommendation. **AP skill tested:** apply **Exam trap:** Data-driven tailoring is a digital-marketing advantage (personalization), not a distribution or PR concept.

Chapter 14 — Q7 Correct answer: D Why D is correct: Press releases, sponsorships, and interviews to rebuild image without asking for a sale is public relations. **Why A is wrong:** Sales promotion offers short-term purchase incentives, which are explicitly absent here. **Why B is wrong:** Personal selling is direct one-on-one selling, not image repair through media. **Why C is wrong:** Direct marketing sends targeted purchase messages, but no one is being asked to buy. **AP skill tested:** explain **Exam trap:** “Without directly asking anyone to buy” is the PR signal — the absence of a sales ask rules out the other tools.

Chapter 14 — Q8 Correct answer: B Why B is correct: Selling only through its own website and showroom gives more control over the customer experience but raises costs and reaches fewer customers — the classic direct-channel trade-off. **Why A is wrong:** A direct channel increases, not surrenders, control over pricing and presentation. **Why C is wrong:** Nothing legally requires this furniture channel; it is a business choice. **Why D is wrong:** Going direct does not eliminate marketing costs — the firm now bears them alone. **AP skill tested:** decision-making **Exam trap:** Students remember “direct = more control” and stop; the tested insight is the paired cost and reach trade-off.

Chapter 15

Chapter 15 — Q1 Correct answer: C Why C is correct: Account Y earns \$4,000 × 4.75% = \$190 and Account X earns \$4,000 × 0.25% = \$10, a difference of about \$180. **Why A is wrong:** \$10 is Account X’s interest alone, not the difference between the accounts. **Why B is wrong:** \$100 does not match either calculation. **Why D is

wrong: $400 overstates the gap; the total in Y is only $190 of interest. **AP skill tested:** interpret data **Exam trap:** Students sometimes subtract rates wrong or forget to compute both accounts; do 4.75% minus 0.25% on $4,000 = $180.

Chapter 15 — Q2 Correct answer: C Why C is correct: An emergency fund's priority is immediate access; Account X allows instant withdrawal while Y needs a 2-business-day transfer. **Why A is wrong:** The scenario gives APY for both; there is no simple-versus-compound distinction driving the choice. **Why B is wrong:** Both accounts are FDIC-insured with the same standard coverage limit. **Why D is wrong:** Savings interest is taxable for both accounts; neither is tax-exempt. **AP skill tested:** decision-making **Exam trap:** The higher yield lures students to Y, but for a 24-hour emergency, liquidity beats interest.

Chapter 15 — Q3 Correct answer: C Why C is correct: A 401(k) with an employer match is an employer-sponsored retirement plan, the named savings incentive. **Why A is wrong:** Automated savings is an automatic-transfer habit, not the employer match described. **Why B is wrong:** A Health Savings Account is for medical expenses, not a 401(k) match. **Why D is wrong:** A tax-deferred annuity is an insurance product, not an employer-matched 401(k). **AP skill tested:** apply **Exam trap:** "401(k)" plus "employer match" is specifically an employer-sponsored plan; don't be distracted by other tax-advantaged accounts.

Chapter 15 — Q4 Correct answer: D Why D is correct: With 6% inflation and 2% interest, real purchasing power falls by roughly 4% (2% minus 6%). **Why A is wrong:** The 2% nominal interest is more than erased by 6% inflation, so power did not rise 2%. **Why B is wrong:** Purchasing power fell, not rose; +4% has the sign backwards. **Why C is wrong:** Power did not stay flat; inflation outran the interest by 4 points. **AP skill tested:** interpret data **Exam trap:** Earning positive interest feels like a gain, but when inflation exceeds it, real purchasing power drops (nominal minus inflation).

Chapter 15 — Q5 Correct answer: D Why D is correct: Non-traditional vehicles like cryptocurrency are not federally insured and may not earn interest. **Why A is wrong:** Crypto is not FDIC-insured; that coverage applies to bank deposits. **Why B is wrong:** Crypto has no guaranteed fixed rate; its value is volatile. **Why C is wrong:** There is no universal $10,000 minimum deposit for crypto. **AP skill tested:** explain **Exam trap:** Students assume any account offering returns is insured; crypto carries no FDIC protection and no guaranteed yield.

Chapter 15 — Q6 Correct answer: C Why C is correct: Raising spending (a pricier apartment) right after an income increase is lifestyle inflation. **Why A is wrong:** Impulse buying is an unplanned single purchase, not a lasting upgrade tied to a raise. **Why B is wrong:** Inconsistent income is variable earnings, not increased spending after a raise. **Why D is wrong:** Emergency spending covers unexpected crises, not a chosen lifestyle upgrade. **AP skill tested:** apply **Exam trap:** A bigger apartment can look like an impulse buy, but scaling spending to a higher income is lifestyle inflation.

Chapter 15 — Q7 Correct answer: A Why A is correct: For an emergency fund, ease of access (liquidity) is the first factor to consider. **Why B is wrong:** Chasing the highest rate can lock money in less-liquid vehicles, defeating the emergency purpose. **Why C is wrong:** A long term length ties up funds when you may need them immediately. **Why D is wrong:** A large minimum deposit is a barrier, not a priority for emergency access. **AP skill tested:** decision-making **Exam trap:** Yield is seductive, but the defining feature of an emergency fund is immediate access — liquidity comes first.

Chapter 15 — Q8 Correct answer: B Why B is correct: FDIC insurance regulations directly protect consumers' bank deposits (up to the coverage limit). **Why A is wrong:** Fed inflation targeting manages the economy broadly, not individual deposit protection. **Why C is wrong:** Sales tax exemptions affect purchases, not deposit safety. **Why D is wrong:** Minimum wage laws set pay floors, unrelated to protecting deposits. **AP skill**

tested: explain **Exam trap:** Several options are real government policies, but only FDIC insurance directly guarantees bank deposits.

Chapter 16

Chapter 16 — Q1 Correct answer: A Why A is correct: Using a credit card and paying the full balance monthly is borrowing for convenience — no interest, just ease of payment. **Why B is wrong:** A mortgage is long-term borrowing for a major asset, not convenience. **Why C is wrong:** A payday loan for rent is borrowing out of necessity/crisis, not convenience. **Why D is wrong:** A student loan funds education, an investment purpose, not convenience. **AP skill tested:** apply **Exam trap:** Any credit-card use can look like debt, but paying in full each month is the textbook convenience case (no interest incurred).

Chapter 16 — Q2 Correct answer: B Why B is correct: A car loan is secured because the car serves as collateral the lender can repossess on default. **Why A is wrong:** A fixed rate describes interest terms, not what makes a loan secured. **Why C is wrong:** Government guarantees apply to some student loans, not to a standard car loan. **Why D is wrong:** A high credit score may be required, but collateral — not the score — defines a secured loan. **AP skill tested:** explain **Exam trap:** “Secured” is about collateral backing the loan, not about the interest rate or the borrower’s score.

Chapter 16 — Q3 Correct answer: C Why C is correct: Credit unions are nonprofit cooperatives owned by their members, the key difference from banks. **Why A is wrong:** For-profit corporations describe banks, not credit unions. **Why B is wrong:** Credit unions are federally regulated (e.g., NCUA), so “not regulated” is false. **Why D is wrong:** Credit unions serve members broadly, not only high-income borrowers. **AP skill tested:** explain **Exam trap:** Both offer similar services, but ownership structure — member-owned nonprofit — is what distinguishes a credit union.

Chapter 16 — Q4 Correct answer: D Why D is correct: $75 fee on $500 for two weeks is 15% per two weeks; annualized (×26) that is roughly 391% APR. **Why A is wrong:** 15% is the two-week rate, not the annual percentage rate. **Why B is wrong:** 75% conflates the dollar fee with a percentage and ignores annualizing. **Why C is wrong:** 150% understates the annualization of a 15% biweekly charge. **AP skill tested:** interpret data **Exam trap:** Students report the periodic rate (15%) as the APR; you must annualize the two-week fee across the year (~26 periods).

Chapter 16 — Q5 Correct answer: A Why A is correct: Payment history and amounts owed (credit utilization) are the two heaviest FICO factors; Marcus’s 74% utilization and two late payments are his primary drags, so fixing them yields the biggest gain. **Why B is wrong:** Length of history and credit mix are lower-weight factors and not his worst problems. **Why C is wrong:** New inquiries matter little and credit mix is minor; neither is a top drag here. **Why D is wrong:** Length of history and new inquiries are both low-weight relative to his utilization and late payments. **AP skill tested:** interpret data **Exam trap:** The report lists five factors to tempt equal weighting; payment history (~35%) and utilization (~30%) dominate the score.

Chapter 16 — Q6 Correct answer: C Why C is correct: Closing Card C removes the oldest account (8 years) and $2,000 of available credit, so it shortens average history and pushes utilization from about 38% to 49% — both hurt the score. **Why A is wrong:** Fewer accounts does not raise a score; losing an old account and credit limit lowers it. **Why B is wrong:** A zero-balance card still helps by adding available credit; closing it raises utilization. **Why D is wrong:** The score is affected because the lost limit and age both matter, despite the zero balance. **AP skill tested:** interpret data **Exam trap:** A zero-balance card seems safe to close, but its unused limit lowers utilization and its age lengthens history — closing it backfires.

Chapter 16 — Q7 Correct answer: D Why D is correct: Lenders, employers, landlords, insurance companies, and government agencies can all access an individual’s credit information. **Why A is wrong:** Lenders are not the only permitted users. **Why B is wrong:** Landlords are included, but so are employers, insurers, and agencies.

Why C is wrong: Access extends well beyond just the individual. **AP skill tested:** explain **Exam trap:** Students underestimate who sees credit data; it is a broad set of parties, not just lenders.

Chapter 16 — Q8 Correct answer: D Why D is correct: The avalanche method targets the highest-interest debt first; the credit card at 22% APR is the priority. **Why A is wrong:** Largest balance (student loans) is not the avalanche criterion — interest rate is. **Why B is wrong:** Smallest balance first is the snowball method, not avalanche. **Why C is wrong:** Paying all equally wastes money on lower-rate debt instead of attacking the costliest. **AP skill tested:** decision-making **Exam trap:** Snowball (smallest balance) versus avalanche (highest rate) — avalanche always prioritizes the highest APR.

Chapter 17

Chapter 17 — Q1 Correct answer: D Why D is correct: Net worth = assets minus liabilities: ($15,000 + $8,000) − $12,000 = $11,000. **Why A is wrong:** $35,000 adds the loan to the assets instead of subtracting it. **Why B is wrong:** $23,000 is total assets before subtracting the liability. **Why C is wrong:** $15,000 counts only the savings and ignores the car and the loan. **AP skill tested:** interpret data **Exam trap:** Students add all three figures or forget to subtract the loan; liabilities must be deducted from assets.

Chapter 17 — Q2 Correct answer: C Why C is correct: Managerial accounting produces internal reports for managers' resource-allocation decisions. **Why A is wrong:** SEC regulatory filings are financial accounting for external oversight, not internal reports. **Why B is wrong:** Shareholder investment reports are external financial accounting. **Why D is wrong:** Consumer financial advisors are outside the company, not the internal managers this report serves. **AP skill tested:** apply **Exam trap:** Managerial = internal decisions; financial = external stakeholders — a revenue-by-category report for managers is managerial.

Chapter 17 — Q3 Correct answer: C Why C is correct: LLC registration fees and a one-time mixer purchase are one-time startup expenditures. **Why A is wrong:** Operating expenses are recurring day-to-day costs, not one-time launch outlays. **Why B is wrong:** Variable costs rise with output; these are fixed launch costs. **Why D is wrong:** Cost of goods sold is the direct cost of products sold, not registration or equipment. **AP skill tested:** apply **Exam trap:** Equipment can be mistaken for COGS or a variable cost, but a single upfront purchase to launch is a one-time startup expenditure.

Chapter 17 — Q4 Correct answer: B Why B is correct: Monthly rent is a recurring initial (occupancy) expense that begins before revenue — an ongoing initial cost, not a one-time expenditure. **Why A is wrong:** Incorporation fees are one-time, not recurring initial expenses. **Why C is wrong:** A one-time legal consultation fee is a single expenditure, not recurring. **Why D is wrong:** Buying a delivery van is a one-time capital purchase, not a recurring initial expense. **AP skill tested:** apply **Exam trap:** The question wants a *recurring* initial expense; the three one-time outlays are distractors, and only rent recurs.

Chapter 17 — Q5 Correct answer: A Why A is correct: Blank shirts and per-print costs are direct (traceable to each shirt) and variable (they rise with volume). **Why B is wrong:** They are not fixed — they scale with output — and they are direct, not indirect. **Why C is wrong:** They are variable, not fixed, though correctly direct. **Why D is wrong:** They are direct, not indirect, though correctly variable. **AP skill tested:** apply **Exam trap:** Two dimensions (direct/indirect and fixed/variable) must both be right; per-unit production inputs are direct and variable.

Chapter 17 — Q6 Correct answer: C Why C is correct: For a service firm, cost of sales includes direct labor (designer hours), materials (stock photos), and client travel. **Why A is wrong:** Office rent and internet are overhead/operating costs, not direct cost of sales. **Why B is wrong:** The owner's salary and health insurance are general overhead, not project-direct costs. **Why D is wrong:** Marketing and business cards are selling/administrative expenses, not cost of sales. **AP skill tested:** apply **Exam trap:** Cost of sales is only the costs directly tied to delivering the service; overhead like rent and marketing does not belong.

Chapter 17 — Q7 Correct answer: D Why D is correct: Loan interest is a non-operating expense — it comes from financing decisions, not core operations, and appears below operating profit. **Why A is wrong:** Production staff wages are an operating (production) cost. **Why B is wrong:** Building insurance is an operating overhead cost. **Why C is wrong:** Sales commission is an operating selling expense tied to revenue. **AP skill tested:** interpret data **Exam trap:** All items are real costs, but only financing-related interest is non-operating; the rest support day-to-day operations.

Chapter 17 — Q8 Correct answer: A Why A is correct: Under accrual accounting, revenue is recorded when earned (service completed Dec 28) and expense when incurred (supplier invoice received in December), giving +$6,000 – $900 = +$5,100. **Why B is wrong:** Accrual records the incurred expense in December too, so it is not +$6,000. **Why C is wrong:** Accrual does record the earned revenue and incurred expense in December, not $0. **Why D is wrong:** Accrual records the expense when incurred, regardless of whether cash is paid before December 31. **AP skill tested:** apply **Exam trap:** Cash-basis thinking (record only when money moves) is the trap; accrual books revenue when earned and expenses when incurred.

Chapter 18

Chapter 18 — Q1 Correct answer: D Why D is correct: Funding a business with personal savings plus early client income is bootstrapping — no outside investors. **Why A is wrong:** Equity financing sells ownership stakes to investors, which this student does not do. **Why B is wrong:** Debt financing means borrowing that must be repaid; she uses her own money and revenue. **Why C is wrong:** Venture capital is large institutional equity investment, not personal savings. **AP skill tested:** apply **Exam trap:** Any startup funding can look like "financing," but self-funding from savings and early revenue is specifically bootstrapping.

Chapter 18 — Q2 Correct answer: B Why B is correct: Break-even = Fixed Costs / (Price – Variable Cost) = $3,000 / ($20 – $8) = $3,000 / $12 = 250 candles. **Why A is wrong:** 150 candles results from dividing by $20 (price) instead of the $12 contribution margin. **Why C is wrong:** 375 candles comes from dividing by $8 (variable cost) rather than the margin. **Why D is wrong:** 167 candles is $2,000/$12 or another mis-setup, not the correct fixed-cost figure. **AP skill tested:** interpret data **Exam trap:** Students divide fixed costs by price or by variable cost; the denominator must be the contribution margin (price – variable cost).

Chapter 18 — Q3 Correct answer: C Why C is correct: Needing money in April for a job whose payment arrives in May is a cash-flow timing gap. **Why A is wrong:** Startup costs are launch expenses; this is an operating firm managing timing, not launching. **Why B is wrong:** The issue is the *timing* of cash, not the size of operating expenses themselves. **Why D is wrong:** Equity dilution concerns giving up ownership, unrelated to this payment-timing gap. **AP skill tested:** apply **Exam trap:** A profitable company can still need capital; the mismatch between when cash goes out and comes in is a cash-flow problem.

Chapter 18 — Q4 Correct answer: C Why C is correct: With no revenue history or assets, an early founder typically turns first to friends, family, or angel investors. **Why A is wrong:** A bank loan requires revenue history or collateral she lacks. **Why B is wrong:** Corporate bonds are for large established firms, not a pre-revenue startup. **Why D is wrong:** An IPO is a late-stage move for mature companies, not a first funding source. **AP skill tested:** decision-making **Exam trap:** Banks and bonds sound "real," but lenders and bond markets shun no-revenue startups — early money comes from friends/family/angels.

Chapter 18 — Q5 Correct answer: A Why A is correct: 1,000 bonds × $1,000 face × 5% = $50,000 total interest per year. **Why B is wrong:** $5,000 is the interest on a single $100,000 slice or a factor-of-ten error. **Why C is wrong:** $500,000 multiplies by 50% or otherwise misplaces a decimal. **Why D is wrong:** $1,000,000 is the total principal raised, not the annual interest. **AP skill tested:** interpret data **Exam trap:** $1,000,000 is the total borrowed (a distractor); the annual interest is 5% of that principal, or $50,000.

Chapter 18 — Q6 Correct answer: B Why B is correct: Capital gain = ($55 – $40) × 100 = $1,500, plus dividends of $1 × 100 = $100, for a total gain of $1,600. **Why A is wrong:** $1,500 counts only the capital gain and omits the $100 in dividends. **Why C is wrong:** $5,500 is the sale proceeds (100 × $55), not the gain. **Why D is wrong:** $5,600 adds dividends to sale proceeds but never subtracts the $4,000 cost basis. **AP skill tested:** interpret data **Exam trap:** Total return combines capital gain *and* dividends; forgetting the dividend gives $1,500, and using proceeds instead of gain gives the $5,000s.

Chapter 18 — Q7 Correct answer: C Why C is correct: 2,000 buyers with a 78% repeat rate is concrete evidence of product-market fit — real demand and retention. **Why A is wrong:** A strong leadership team is shown by founder experience, not by customer purchase data. **Why B is wrong:** Accurate valuation is a financial pricing judgment, not demonstrated by sales counts. **Why D is wrong:** Low risk tolerance is an investor trait, not something customer data proves. **AP skill tested:** interpret data **Exam trap:** Sales-and-repeat data specifically proves demand fit; don't map customer metrics onto team quality or valuation.

Chapter 18 — Q8 Correct answer: A Why A is correct: Choosing the founder with 10 years of industry experience reflects evaluating the leadership team's ability to execute. **Why B is wrong:** Product-market fit is about customer demand; both startups already have promising products. **Why C is wrong:** Valuation is the company's assigned worth, not the basis for this experience-driven choice. **Why D is wrong:** Cash flow management is a financial operations concern, not the founder-experience factor cited. **AP skill tested:** decision-making **Exam trap:** With products held equal, the deciding variable is founder experience — an assessment of the leadership team, not the product.

Chapter 19 — The Income Statement

Chapter 19 — Q1 Correct answer: A Why A is correct: Operating profit = $462,000 – $95,000 – $112,000 = $255,000; then pretax income = $255,000 – $18,000 = $237,000, tax = $59,250, net income = $177,750, and net profit margin = $177,750 ÷ $840,000 ≈ 21.2%. **Why B is wrong:** It gets operating profit right but computes the margin from pretax income ($237,000 ÷ $840,000 ≈ 28.2%), skipping the tax deduction. **Why C is wrong:** $273,000 comes from mis-subtracting the operating expenses; neither the operating profit nor the 30.4% margin survives a correct top-to-bottom walk. **Why D is wrong:** $462,000 is gross profit, not operating profit, and 55% is the gross margin — it stops the calculation two lines too early. **AP skill tested:** interpret data **Exam trap:** Multi-line income statement questions reward working line by line in order — Revenue → Gross Profit → Operating Profit → Pretax → Net Income. The distractors are each a "stopped too early" or "skipped a line" version of the right process.

Chapter 19 — Q2 Correct answer: B Why B is correct: Gross profit margin = gross profit ÷ revenue = $180,000 ÷ $300,000 = 60%. **Why A is wrong:** 40% is what you get if you divide COGS ($120,000) by revenue — that's the cost ratio, not the gross margin. **Why C is wrong:** 167% inverts the fraction (revenue ÷ gross profit); a margin can never exceed 100% of revenue. **Why D is wrong:** 30% has no basis in the numbers — it's a plausible-looking margin inserted to catch guessers. **AP skill tested:** apply **Exam trap:** Margin formulas always put revenue in the denominator. Flipping the fraction (C) or using the complement (A) are the two standard wrong-math distractors.

Chapter 19 — Q3 Correct answer: A Why A is correct: Pretax income = $500,000 – $50,000 = $450,000; tax = 20% × $450,000 = $90,000; net income = $450,000 – $90,000 = $360,000. **Why B is wrong:** $450,000 is pretax income — it forgets to apply the tax. **Why C is wrong:** $400,000 taxes operating profit before subtracting interest ($500K × 0.8 = $400K), applying the steps in the wrong order. **Why D is wrong:** $350,000 subtracts the $50,000 interest and a flat $100,000 tax on operating profit — tax must be computed on pretax income, after interest. **AP skill tested:** apply **Exam trap:** Order of operations: interest comes out *before* tax is calculated. Any answer that taxes the $500,000 directly is wrong.

Chapter 19 — Q4 Correct answer: D Why D is correct: A margin improvement only means something in context — against the firm's own projections, its past performance, and its competitors' margins all together. **Why A is wrong:** Projections alone can't tell you whether 20% is good for the industry. **Why B is wrong:** Competitors alone ignore whether the company hit its own plan and improved on its own history. **Why C is wrong:** GDP growth is a macro statistic with no direct benchmark value for one coffee shop's profit margin. **AP skill tested:** explain **Exam trap:** When two options are partially right and one option combines them, the combined option is almost always the credited answer on benchmarking questions — "only" is the tell.

Chapter 19 — Q5 Correct answer: B Why B is correct: A lender's core question is "can this business repay the loan?" — operating profit shows repayment capacity and interest expense shows the existing debt burden. **Why A is wrong:** Customers care about product quality and price, not the firm's interest coverage. **Why C is wrong:** A job applicant researching culture would look at reviews and mission, not income-statement line items. **Why D is wrong:** A supplier setting prices cares about its own costs and the buyer's order volume, not the buyer's interest expense. **AP skill tested:** explain **Exam trap:** Stakeholder questions are matching exercises: pair each stakeholder with the *specific* line items that answer *their* decision. Lenders → operating profit and interest.

Chapter 19 — Q6 Correct answer: A Why A is correct: Percentage change = ($920,000 – $800,000) ÷ $800,000 = $120,000 ÷ $800,000 = 15%. **Why B is wrong:** 12% approximates dividing by the *new* value plus rounding down — the base must be the original ($800,000). **Why C is wrong:** 13% is the result of dividing $120,000 by $920,000 (new-year base), the classic wrong-denominator error. **Why D is wrong:** 87% is $800,000 ÷ $920,000 — a ratio of the two years, not a percentage change at all. **AP skill tested:** apply **Exam trap:** Percentage change is always measured against the *original* value. The "divide by the new number" distractor appears on nearly every percentage-change item.

Chapter 19 — Q7 Correct answer: B Why B is correct: Planning for uncertainty means projecting revenue from market research and splitting expenses into fixed vs. variable so you can model different sales scenarios. **Why A is wrong:** Ignoring competitors blinds the business to exactly the external forces creating the uncertainty. **Why C is wrong:** Reporting one past quarter is backward-looking; it forecasts nothing. **Why D is wrong:** You can't "eliminate" variable costs — they are the costs of making sales — and doing so would gut the business, not simplify planning. **AP skill tested:** decision-making **Exam trap:** Options that promise simplicity by ignoring or eliminating information (A, C, D) are distractors; AP credits the answer that *uses more relevant information systematically*.

Chapter 19 — Q8 Correct answer: D Why D is correct: The $3,000 lease and the $500 POS subscription are fixed costs — they stay the same regardless of how many drinks are sold, so a 20% sales increase leaves them unchanged. **Why A is wrong:** Both organic supplies and cups/lids rise with each drink sold — they're the two *variable* costs, the exact opposite of what's asked. **Why B is wrong:** It mixes one fixed cost (lease) with one variable cost (supplies), so the pair fails the "will not change" test. **Why C is wrong:** Cups/lids are purchased per drink sold — a variable cost — so this pair also fails. **AP skill tested:** apply **Exam trap:** Read whether the question asks for costs that *will* or will *NOT* change — option A is the correct answer to the reversed question, planted for students who miss the "NOT."

Chapter 20 — The Balance Sheet and Net Worth

Chapter 20 — Q1 Correct answer: A Why A is correct: Cash and accounts receivable convert to cash within a year (current assets), while ovens and the van deliver value over multiple years (long-term assets). **Why B is wrong:** When an asset was *purchased* is irrelevant — classification depends on how long it will provide value, and ovens are multi-year equipment. **Why C is wrong:** A loan with 4 years remaining is a long-term liability; "will eventually be repaid" describes every liability, not the current/long-term split. **Why D is wrong:** Retained earnings is part of owners' equity — profits kept in the business — not money owed to anyone. **AP skill tested:**

describe **Exam trap:** Classification hinges on the one-year rule for the *future* (when it converts to cash or comes due), not on purchase history. Distractor B exploits that confusion every time.

Chapter 20 — Q2 Correct answer: C Why C is correct: Rearranging the accounting equation: Owners' equity = Assets − Liabilities = $200,000 − $120,000 = $80,000. **Why A is wrong:** $320,000 *adds* assets and liabilities — the equation subtracts. **Why B is wrong:** $120,000 is just the liabilities figure restated. **Why D is wrong:** $200,000 is just the assets figure restated. **AP skill tested:** apply **Exam trap:** Restated-input distractors (B, D) catch students who don't actually compute; the added-instead-of-subtracted answer (A) catches those who misremember the equation's direction.

Chapter 20 — Q3 Correct answer: C Why C is correct: A five-year bank loan comes due in more than one year, which is the definition of a long-term liability. **Why A is wrong:** Accounts payable due in 30 days is a textbook current liability. **Why B is wrong:** Wages payable this Friday is due within days — current. **Why D is wrong:** A 60-day credit term is still well inside the one-year window — current. **AP skill tested:** describe **Exam trap:** The dividing line is exactly one year. Every distractor here sits inside that window; don't be distracted by dollar size or what the money bought.

Chapter 20 — Q4 Correct answer: C Why C is correct: The van (+$35,000) and the cash paid (−$10,000) net to +$25,000 in assets; the loan adds +$25,000 in liabilities; equity is untouched and the equation stays balanced. **Why A is wrong:** Equity doesn't decrease — the $10,000 cash didn't leave the company as a loss; it converted into part of the van's value. **Why B is wrong:** The net asset change is right by coincidence of the numbers, but the description ignores that assets moved in two directions (van up $35,000, cash down $10,000) — and it states assets increase by only the loan amount for the wrong reason. The credited answer must explain the *net* correctly. **Why D is wrong:** Liabilities rise by only the $25,000 borrowed, not the full $35,000 price — the cash portion was paid, not owed. **AP skill tested:** apply **Exam trap:** Transaction questions require tracking *both sides* of every exchange. Check any answer against A = L + E; only C keeps the equation balanced with the correct components.

Chapter 20 — Q5 Correct answer: D Why D is correct: Year 1 net worth = $18,000 − $10,400 = $7,600; Year 2 = $18,600 − $7,800 = $10,800; the +$3,200 gain came from liabilities falling $2,600 while assets held roughly steady — the signature of debt repayment and retained profit. **Why A is wrong:** Net worth went *up*, not down; the equipment depreciation was more than offset by higher cash and lower debt. **Why B is wrong:** The direction and amount are right but the reason is wrong — equipment *lost* $1,500 of value. **Why C is wrong:** Assets rose slightly while liabilities fell sharply; nothing moved "by equal amounts." **AP skill tested:** interpret data **Exam trap:** On two-part answers (number + cause), a distractor with the correct number and a wrong cause (B) is never credited. Verify both halves.

Chapter 20 — Q6 Correct answer: D Why D is correct: Personal net worth = assets − liabilities = $15,000 − $9,000 = $6,000. **Why A is wrong:** $24,000 adds instead of subtracts. **Why B is wrong:** $15,000 is total assets, not net worth. **Why C is wrong:** $9,000 is total liabilities, not net worth. **AP skill tested:** apply **Exam trap:** Same formula as business equity, personal scale — the exam recycles the restated-input and added-instead-of-subtracted distractors here too.

Chapter 20 — Q7 Correct answer: B Why B is correct: Tracking net worth over time reveals whether your financial position is improving, which informs decisions about saving, spending, and borrowing. **Why A is wrong:** Taxes are calculated from income, not from net worth. **Why C is wrong:** Revenue is a business income-statement concept; individuals tracking net worth aren't computing revenue. **Why D is wrong:** Pricing goods is a business marketing decision, unrelated to a personal balance sheet. **AP skill tested:** explain **Exam trap:** Distractors that import income-statement or business vocabulary (revenue, pricing) into a *personal balance sheet* question are cross-statement confusion bait.

Chapter 20 — Q8 Correct answer: A Why A is correct: Net worth = assets − liabilities, so the only way it rises $1,400 is if assets grew faster than liabilities (or liabilities shrank relative to assets). **Why B is wrong:** "Revenue exceeded expenses" is income-statement language; a student's net worth could also rise from asset appreciation or debt payoff without any "revenue." **Why C is wrong:** Liabilities rising by $1,400 with assets flat would *decrease* net worth by $1,400. **Why D is wrong:** Eliminating liabilities isn't necessarily what happened, and the question asks for the best *general* explanation — the definitional one. **AP skill tested:** explain **Exam trap:** "Best explains" means the answer that follows directly from the definition, not a specific scenario (D) that merely *could* be true.

Chapter 21 — Cash Flow and Financial Ethics

Chapter 21 — Q1 Correct answer: D Why D is correct: Operating activities capture day-to-day business cash: client receipts ($62,000) minus food supplies ($18,000) minus wages ($22,000) = +$22,000. **Why A is wrong:** Counting only inflows ignores the operating outflows for supplies and wages. **Why B is wrong:** The refrigerated van is a long-term asset purchase — an *investing* outflow, never an operating cost on the cash flow statement. **Why C is wrong:** It subtracts wages but skips the $18,000 of food supplies, an equally operational cash payment. **AP skill tested:** interpret data **Exam trap:** Sort every line into its bucket first — operating / investing / financing — before adding anything. The van (investing) and the loan (financing) are planted to contaminate the operating math.

Chapter 21 — Q2 Correct answer: B Why B is correct: Buying a factory is acquiring a long-term productive asset, which is precisely what the investing-activities section records. **Why A is wrong:** Operating activities cover day-to-day revenue and expense cash, not capital purchases. **Why C is wrong:** Financing activities cover raising and repaying capital (loans, stock, dividends), not spending it on assets. **Why D is wrong:** A $5 million cash payment absolutely appears on the cash flow statement — cash moved. **AP skill tested:** describe **Exam trap:** Quick section test: operating = running the business, investing = buying/selling long-term assets, financing = dealing with lenders and owners.

Chapter 21 — Q3 Correct answer: D Why D is correct: Under accrual accounting, revenue is recorded when *earned*; if customers haven't paid yet, profit shows up on the income statement long before the cash arrives. **Why A is wrong:** A profit–cash gap is a normal timing effect, not evidence of fraud. **Why B is wrong:** Cash flow and profit are different measures and routinely diverge — there is no rule that they equalize. **Why C is wrong:** Forgetting expenses would *raise* reported income erroneously, which isn't what the timing gap describes, and it's not the "best" explanation offered. **AP skill tested:** explain **Exam trap:** "Profit ≠ cash" is the single most tested cash-flow idea. Reach for the accrual-timing explanation before assuming error or fraud.

Chapter 21 — Q4 Correct answer: A Why A is correct: For a growing startup, negative investing cash flow usually means it is buying equipment, technology, and other long-term assets to fuel expansion — a healthy signal in context. **Why B is wrong:** Failure would show up as weak *operating* cash flow; heavy investment is the opposite of retreat. **Why C is wrong:** Payroll is an operating activity; the investing section says nothing about ability to pay employees. **Why D is wrong:** Halting investment would undercut the very growth strategy the pattern indicates. **AP skill tested:** interpret data **Exam trap:** Negative numbers aren't automatically bad. Interpret each cash-flow section in light of the company's life stage — negative investing flow at a growth-stage firm is expected.

Chapter 21 — Q5 Correct answer: C Why C is correct: Financial fraud carries legal penalties — fines, civil liability, and imprisonment — along with destroyed trust and reputation. **Why A is wrong:** Fraud *destroys* investor confidence when revealed; it never increases it. **Why B is wrong:** Fraud doesn't lower legitimate tax obligations, and tax fraud adds penalties on top. **Why D is wrong:** Voluntary reporting may reduce sentencing but there is no "automatic forgiveness" for fraud. **AP skill tested:** describe **Exam trap:** Distractors that frame fraud as producing any benefit (A, B) or an easy escape (D) are always wrong on ethics items.

Chapter 21 — Q6 Correct answer: B Why B is correct: Booking next-year revenue in Q4 and slashing depreciation without justification are improper revenue recognition and expense manipulation — financial fraud — and the CFO's SOX certification of those statements creates personal criminal liability. **Why A is wrong:** This goes far beyond an innocent accounting error; deliberate misstatement certified by an officer is a legal matter under SOX. **Why C is wrong:** The contracts were signed in the *following* fiscal year — the adjustments do not fall in the same year, and intent to inflate Q4 is the violation. **Why D is wrong:** SOX applies to all publicly traded companies regardless of whether they sell physical goods or software. **AP skill tested:** apply **Exam trap:** Scenario ethics questions credit the answer that names *both* the accounting violation and the legal consequence. Options that minimize ("just an error") or invent exemptions ("SOX doesn't apply") are traps.

Chapter 21 — Q7 Correct answer: A Why A is correct: Five quarters of profit with persistently negative operating cash flow means the business isn't converting reported earnings into cash — it may be unable to pay bills and sustain operations. **Why B is wrong:** Negative operating cash flow is a warning sign, not proof of fraud — "always" overstates it. **Why C is wrong:** The pattern shows exactly why the cash flow statement matters; it isn't subordinate to the income statement. **Why D is wrong:** Leaning on financing (loans, new equity) to cover operating shortfalls indefinitely is unsustainable, not a norm. **AP skill tested:** interpret data **Exam trap:** Absolute words like "always" (B, D) usually mark a distractor; the credited answer states a measured concern.

Chapter 21 — Q8 Correct answer: B Why B is correct: SOX requires CEOs and CFOs to personally certify financial statements, eliminating the "I didn't know" defense executives used after Enron. **Why A is wrong:** SOX regulates public companies; it forces no one to *become* publicly traded. **Why C is wrong:** SOX strengthened external audit requirements (and created the PCAOB) — the opposite of removing them. **Why D is wrong:** SOX increased criminal penalties for fraud; it did not downgrade fraud to a civil offense. **AP skill tested:** describe **Exam trap:** SOX distractors typically invert the law's direction. Remember its thrust: *more* accountability, *more* audit oversight, *harsher* criminal penalties.

Chapter 22 — Management, Leadership, and KPIs

Chapter 22 — Q1 Correct answer: A Why A is correct: Building a schedule that assigns specific servers to specific shifts is organizing — arranging resources and assigning tasks to people. **Why B is wrong:** Planning sets goals and decides what needs to happen; the goal (staff the restaurant) already exists — this is allocating people to it. **Why C is wrong:** Leading is motivating and influencing people, not slotting them into a schedule grid. **Why D is wrong:** Evaluating means measuring performance against goals after the fact; nothing is being measured here. **AP skill tested:** apply **Exam trap:** "Creates a schedule" sounds like planning — but the AP framework treats assigning *people and resources to tasks* as organizing. Focus on the verb's object, not the word "schedule."

Chapter 22 — Q2 Correct answer: C Why C is correct: Yuki sets outcomes but gives experienced designers near-total autonomy over methods — laissez-faire leadership — and that style breaks down when inexperienced members join and need structured guidance. **Why A is wrong:** Transformational leaders actively inspire around a vision; Yuki "rarely initiates direction," which is the opposite of active inspiration. **Why B is wrong:** Democratic leadership means group input into decisions; Yuki isn't running votes — she's stepping back entirely. **Why D is wrong:** Servant leadership centers on actively removing obstacles for the team; Yuki's defining trait is minimal involvement, not obstacle-clearing service. **AP skill tested:** apply **Exam trap:** Two-part answers must be right twice: the style label *and* the failure condition. Laissez-faire's classic failure mode — inexperienced team members — is the detail that separates C from near-miss labels.

Chapter 22 — Q3 Correct answer: C Why C is correct: Growth rate = ($600,000 – $500,000) ÷ $500,000 = 20%. **Why A is wrong:** 10% understates the change — likely from halving or misreading the base. **Why B is wrong:** 15% doesn't result from either legitimate base; it's a guess-catcher. **Why D is wrong:** 25% comes from dividing the $100,000 change by a $400,000-style wrong base or misapplying the formula. **AP skill tested:** apply **Exam trap:** Same rule as all percentage change: divide by the *original* value ($500,000), not the new one.

Chapter 22 — Q4 Correct answer: B Why B is correct: Cancellations blew past target (89 vs. < 60) *and* NPS collapsed from 71 to 58 — two linked indicators pointing to a customer-experience problem that will keep draining revenue if ignored. **Why A is wrong:** Missing new-membership target by 12 units is a modest single-metric shortfall, not the compounding problem. **Why C is wrong:** Training bookings dipped slightly, but nothing in the data shows they're "the most direct driver of revenue" or the urgent issue. **Why D is wrong:** Revenue per location is a lagging *symptom*; the cancellations-plus-NPS pattern is the cause that will drive it further down. **AP skill tested:** interpret data **Exam trap:** KPI-table questions reward finding the metric *combination* that tells a causal story (leading indicator + confirming metric), not the single number farthest from target.

Chapter 22 — Q5 Correct answer: D Why D is correct: Reviewing performance data, spotting a deviation, and taking corrective action is evaluating (traditionally called controlling). **Why A is wrong:** Planning would be setting the original revenue goals, not reacting to results against them. **Why B is wrong:** Organizing is allocating resources and tasks — no allocation is happening here. **Why C is wrong:** Leading is about motivating people; this is about monitoring numbers and correcting course. **AP skill tested:** apply **Exam trap:** "Implements a new promotion" can look like planning — but the *primary* function is the monitor-and-correct cycle. Identify what triggered the action: performance data means evaluating.

Chapter 22 — Q6 Correct answer: D Why D is correct: Total revenue = units × average revenue per sale: Rivera = 220 × $310 = $68,200; Chen = 180 × $520 = $93,600 — Chen generates more despite fewer units. **Why A is wrong:** It equates more units with more revenue, ignoring that Chen's revenue per sale is nearly 70% higher. **Why B is wrong:** Judging Chen "weaker" on units alone contradicts both total revenue and satisfaction, where Chen leads. **Why C is wrong:** Revenue per sale measures deal size, not service quality — and the actual service metric (satisfaction) favors Chen, not Rivera. **AP skill tested:** interpret data **Exam trap:** When a table gives you two multipliable columns, multiply them. "Best supported conclusion" questions punish single-column reasoning.

Chapter 22 — Q7 Correct answer: A Why A is correct: "Increase online sales by 15% within six months" names a specific metric, a measurable amount, and a deadline — the core SMART qualities. **Why B is wrong:** Broad, open-ended goals are the opposite of effective goal-setting; flexibility here means unaccountability. **Why C is wrong:** The goal is explicitly financial (sales), and effectiveness doesn't require excluding financial outcomes. **Why D is wrong:** The goal is entirely trackable — 15% and six months are objective checkpoints. **AP skill tested:** describe **Exam trap:** SMART questions are usually easy points — just confirm the option that restates Specific/Measurable/Time-bound rather than one praising vagueness.

Chapter 22 — Q8 Correct answer: B Why B is correct: Managers focus on planning, organizing, and evaluating day-to-day work; leaders focus on inspiring and motivating people toward a vision. **Why A is wrong:** It swaps the definitions — the vision role belongs to the leader, not the manager. **Why C is wrong:** The roles overlap in practice but are conceptually distinct — the exam expects you to distinguish them. **Why D is wrong:** Managers set team goals constantly; goal-setting is not reserved for leaders. **AP skill tested:** describe **Exam trap:** The reversed-definition distractor (A) is standard on manager-vs-leader items. Read which noun is attached to "vision" before answering.

Chapter 23 — Strategy and Decision-Making

Chapter 23 — Q1 Correct answer: D Why D is correct: Choosing where to park on which days is a specific, short-term, operational action — a tactic that executes a larger strategy. **Why A is wrong:** A vision statement describes the aspirational future of the business, not a parking plan. **Why B is wrong:** A strategic goal is a broader, longer-term target (e.g., "become the top food truck in the city"); this is the day-level execution beneath it. **Why C is wrong:** A mission statement defines the business's purpose, not its weekly locations. **AP skill tested:** apply **Exam trap:** Work down the hierarchy: mission/vision → strategy → tactic. The more specific and short-term the action, the lower it sits — specific days and locations = tactic.

Chapter 23 — Q2 Correct answer: A Why A is correct: Weighted scores: Lawn care = (4×0.30)+(5×0.30)+(5×0.25)+(3×0.15) = 4.40; Tree removal = 2.75; Garden design = 3.40 — lawn care wins and directly matches the fast, low-risk goal. **Why B is wrong:** Tree removal tops only the revenue criterion, which carries the *lowest* weight (15%) under GreenLeaf's stated goal. **Why C is wrong:** "Most balanced" is not the decision rule — the weighted total is, and garden design's 3.40 loses to 4.40. **Why D is wrong:** Asserting revenue "should always carry the most weight" overrides the company's own stated criteria — the matrix exists precisely to encode *its* priorities. **AP skill tested:** decision-making **Exam trap:** Actually compute the weighted totals; don't eyeball. And never let a distractor substitute its own priorities ("revenue always matters most") for the weights given in the stem.

Chapter 23 — Q3 Correct answer: C Why C is correct: Dismissing contrary evidence because it conflicts with a pre-existing personal belief is confirmation bias. **Why A is wrong:** Evidence-based decision making is exactly what she's failing to do — she's rejecting the evidence. **Why B is wrong:** Criteria-based evaluation would score the product against explicit criteria; no criteria are being applied. **Why D is wrong:** Strategic planning is a structured long-term process, not a description of ignoring research. **AP skill tested:** apply **Exam trap:** Bias questions plant the *virtuous* terms (evidence-based, criteria-based) as distractors. The behavior described is the opposite of the label — match behavior, not vocabulary.

Chapter 23 — Q4 Correct answer: D Why D is correct: The review step examines outcomes and feeds what's learned back into identifying new problems — closing the loop of the decision-making process. **Why A is wrong:** Gathering information feeds *forward* into evaluating alternatives, not back to the start. **Why B is wrong:** Deciding selects an alternative; it doesn't generate feedback. **Why C is wrong:** Implementing puts the choice into action; the loop closes only when results are reviewed. **AP skill tested:** describe **Exam trap:** "Feedback loop" = the step that looks *backward at results*. Only review does that; every other step moves the process forward.

Chapter 23 — Q5 Correct answer: D Why D is correct: With long-term retention as the criterion, investing in better recommendations and app stability directly raises satisfaction and reduces churn — the retention levers themselves. **Why A is wrong:** A one-month discount spikes *signups*, the metric the company explicitly deprioritized, and discounted users churn fast. **Why B is wrong:** Cutting the content budget boosts this quarter's margin at the expense of the product quality that keeps subscribers — anti-retention. **Why C is wrong:** Referral bonuses also chase new-signup volume; paying for acquisitions does nothing to keep existing users. **AP skill tested:** decision-making **Exam trap:** When the stem hands you the decision criterion, grade every option against *that criterion only*. Options attractive under a different goal (growth, quarterly profit) are the trap.

Chapter 23 — Q6 Correct answer: B Why B is correct: Continuing to fund a failing product because of the $2 million already spent is the sunk cost fallacy — past, unrecoverable spending should never drive future decisions. **Why A is wrong:** Evidence-based decision making would weigh the product's current failing performance — and stop funding. **Why C is wrong:** Criteria-based evaluation applies forward-looking criteria; "we already spent a lot" is not a valid criterion. **Why D is wrong:** Analysis paralysis is failing to decide because of over-analysis; this firm decided — badly — for a different reason. **AP skill tested:** apply **Exam trap:** The signal phrase is "because it has already spent." Any decision justified by unrecoverable past costs is sunk cost fallacy, full stop.

Chapter 23 — Q7 Correct answer: A Why A is correct: A multi-year, market-entering commitment to build national presence is a strategy — a major, long-term plan for achieving the firm's goals. **Why B is wrong:** Tactics are the specific short-term actions (site selection, local hiring, launch promotions) that will execute this strategy. **Why C is wrong:** Daily operating tasks are routine work, nowhere near a two-year expansion decision.

Why D is wrong: A mission statement states purpose; it doesn't commit to entering three specific states. **AP skill tested:** apply **Exam trap:** Time horizon and scope are the classifiers: multi-year + market-level = strategy; days-to-months + activity-level = tactic.

Chapter 23 — Q8 Correct answer: B Why B is correct: In the decision-making process, gathering relevant information immediately follows identifying the problem — you need facts before generating and weighing alternatives. **Why A is wrong:** Implementing before researching skips every analytical step of the process. **Why C is wrong:** Review is the *final* step, after implementation. **Why D is wrong:** Choosing without research abandons the evidence-gathering the process exists to enforce. **AP skill tested:** describe **Exam trap:** Sequence questions are free points if you've memorized the order: identify → gather information → evaluate alternatives → decide → implement → review.

Chapter 24 — Porter's Five Forces and SWOT

Chapter 24 — Q1 Correct answer: B Why B is correct: Billions in required capital to build aircraft is a barrier to entry — it determines the threat of new entrants, which is low here because the barrier is high. **Why A is wrong:** Competitive rivalry describes competition among airlines *already in* the industry, not the difficulty of getting in. **Why C is wrong:** Supplier power concerns aircraft makers' and fuel providers' leverage over airlines, not startup capital needs. **Why D is wrong:** Substitutes are different products meeting the same need (trains, video calls), unrelated to entry costs. **AP skill tested:** apply **Exam trap:** Anything about the *difficulty or cost of entering* an industry maps to threat of new entrants — capital requirements are the canonical barrier.

Chapter 24 — Q2 Correct answer: C Why C is correct: Walmart is the *buyer* in this relationship — its enormous purchase volume gives it bargaining power to force lower prices from the companies selling to it. **Why A is wrong:** Supplier power runs the other way — it would be the vendors dictating terms to Walmart, which is the opposite of what's described. **Why B is wrong:** Rivalry is Walmart vs. Target/Amazon competition, not Walmart vs. its vendors. **Why D is wrong:** New entrants are firms trying to enter retail — irrelevant to a purchasing negotiation. **AP skill tested:** apply **Exam trap:** Identify who is buying from whom *in the described transaction*. Walmart is a seller to consumers but a *buyer* from manufacturers — the stem is about the second relationship.

Chapter 24 — Q3 Correct answer: D Why D is correct: A regulation banning the company's core product is an unfavorable *external* condition — a threat. **Why A is wrong:** Strengths are favorable *internal* attributes; a hostile regulation is neither favorable nor internal. **Why B is wrong:** Weaknesses are internal shortcomings the company controls; a government ban is outside its control. **Why C is wrong:** Opportunities are favorable external conditions — this one damages the packaging company's market. **AP skill tested:** apply **Exam trap:** SWOT sorting is two questions: internal or external? favorable or unfavorable? Regulation = external; ban on your product = unfavorable → threat. (The same ban could be an *opportunity* for a compostables maker — perspective matters.)

Chapter 24 — Q4 Correct answer: C Why C is correct: A growing population of remote workers needing daytime workspace is a favorable *external* trend the shop can act on — an opportunity. **Why A is wrong:** Strengths are internal (her espresso quality, location, staff); the neighborhood trend isn't an attribute of her business. **Why B is wrong:** Nothing unfavorable or internal is described. **Why D is wrong:** The trend helps her; threats are unfavorable external conditions. **AP skill tested:** apply **Exam trap:** Market trends the firm didn't create are always external. If the trend helps → opportunity; if it hurts → threat.

Chapter 24 — Q5 Correct answer: D Why D is correct: Building switching costs through a direct-to-consumer app makes customers less willing and able to defect — a deliberate move to weaken buyer power. **Why A is wrong:** The app doesn't raise barriers for new shoe companies entering the market. **Why B is wrong:** Supplier power concerns Nike's factories and material vendors — untouched by a consumer app. **Why C is wrong:**

Rivalry with Adidas still exists; the app changes *customers'* leverage, not the fact of competition. **AP skill tested:** apply **Exam trap:** "Switching costs" is the keyword — raising them always targets buyer power, because it reduces customers' ability to punish you by leaving.

Chapter 24 — Q6 Correct answer: C Why C is correct: A single-source supplier of an essential, irreplaceable input that has raised prices ~20% two years running is textbook high supplier power — and the fitting response is reducing dependence via alternative sources or a long-term contract. **Why A is wrong:** The stem says entry needs only modest capital but calls that force stable; lobbying the government to block entrants is neither the acute problem nor a realistic fix. **Why B is wrong:** Substitutes are described as "real but stable," and pricing beer below wine and spirits would destroy the margins MicroBrew is trying to protect. **Why D is wrong:** Nothing in the stem shows buyers squeezing MicroBrew, and forcing annual purchase agreements on retailers isn't supportable from the data. **AP skill tested:** decision-making **Exam trap:** Two-part force-plus-response items require both halves correct. The stem tells you which forces are "stable" — the acute force is the one actively moving (prices up 20%/year), and the response must address *that* force.

Chapter 24 — Q7 Correct answer: B Why B is correct: Streaming is a *different product category* satisfying the same need (evening entertainment) — the threat of substitutes. **Why A is wrong:** Rivalry would be competition with other cinema chains — same product, same industry. **Why C is wrong:** Suppliers here are film studios; their leverage isn't what's described. **Why D is wrong:** New entrants would be new cinema companies opening theaters, not an alternative way to watch at home. **AP skill tested:** apply **Exam trap:** Rivalry vs. substitutes is the most-confused pair: same-industry competitor = rivalry; different-category solution to the same need = substitute. Netflix isn't a cinema.

Chapter 24 — Q8 Correct answer: B Why B is correct: Apple and Samsung are established firms in the same industry fighting head-to-head for each other's customers — the definition of competitive rivalry, intensified by a mature, slow-growth market. **Why A is wrong:** Both firms are incumbents; no one is entering the market. **Why C is wrong:** Chip and component suppliers aren't part of the described battle. **Why D is wrong:** Both sell smartphones — the same product, not a substitute category. **AP skill tested:** apply **Exam trap:** "Established firms," "each other's existing customers," and "mature market" are rivalry signals — mature markets intensify rivalry because growth must come from stealing share.

Chapter 25 — Taxes, Net Income, and Budgeting

Chapter 25 — Q1 Correct answer: B Why B is correct: Net income = $4,000 – $400 – $200 – $248 – $58 = $3,094 — gross pay minus all four deductions. **Why A is wrong:** $4,000 is gross pay; net income is what remains *after* deductions. **Why C is wrong:** $3,352 omits one of the deductions (leaving out Social Security's $248 and Medicare, or a similar partial subtraction). **Why D is wrong:** $3,600 subtracts only the $400 federal tax and ignores the other three deductions. **AP skill tested:** apply **Exam trap:** Net-pay problems hide partial-subtraction distractors. Add up all deductions first ($906), then subtract once.

Chapter 25 — Q2 Correct answer: A Why A is correct: A 401(k) contribution is voluntary — the employee chooses whether and how much to contribute. **Why B is wrong:** Federal income tax withholding is required by law. **Why C is wrong:** Social Security tax (6.2%) is mandated under FICA. **Why D is wrong:** Medicare tax (1.45%) is likewise a mandatory FICA deduction. **AP skill tested:** describe **Exam trap:** Mandatory = government-required (taxes, FICA); voluntary = employee-elected (retirement, extra insurance). Watch the "NOT" in the stem.

Chapter 25 — Q3 Correct answer: D Why D is correct: Net pay = $4,500 – $225 – $210 – $598 – $168 – $279 – $65 = $2,955, and the pre-tax 401(k) contribution both lowers federal taxable income and accumulates in Marcus's own retirement account — his personal wealth. **Why A is wrong:** The net pay figure is right, but the health insurance premium buys coverage — it doesn't accumulate as wealth Marcus owns. **Why B is wrong:**

$3,180 is a miscalculation, and Social Security is a mandatory tax funding a government program, not a personal wealth-building account. **Why C is wrong:** $2,730 is wrong arithmetic, and mandatory deductions like Social Security and Medicare are *post-liability* taxes, not all taxable-income reducers. **AP skill tested:** interpret data **Exam trap:** Two-part questions die on either half. A has the right number with the wrong concept — verify the conceptual claim even after the math matches.

Chapter 25 — Q4 Correct answer: C Why C is correct: Zero-based budgeting forces Aiden to assign all $2,800 intentionally, exposing every unexamined "want" and maximizing the dollars thrown at 22% APR debt. **Why A is wrong:** 50/30/20's built-in 30% "wants" allocation (~$840) is precisely the leakage someone attacking high-interest debt can't afford. **Why B is wrong:** The income-level claim is a fabricated rule — zero-based budgeting fits anyone; the reason given is wrong even though the method matches. **Why D is wrong:** Capping debt repayment at the 20% bucket ($560/month) would leave $9,400 at 22% APR compounding for years — "more than enough" is exactly backwards. **AP skill tested:** decision-making **Exam trap:** Method-choice questions are decided by the *why*. B picks the right method for a wrong reason — AP credits the option whose justification connects the method's mechanics to the person's goal.

Chapter 25 — Q5 Correct answer: B Why B is correct: Zero-based budgeting assigns every dollar of income a specific job until income minus allocations equals zero. **Why A is wrong:** "Zero" refers to unallocated dollars, not zero spending on wants — wants get a deliberate allocation. **Why C is wrong:** It's not about starting the month with a zero bank balance. **Why D is wrong:** Zero-based budgeting covers all spending — fixed, variable, and discretionary alike. **AP skill tested:** describe **Exam trap:** Each distractor misreads what "zero" means. It's the *leftover unassigned amount* that must equal zero.

Chapter 25 — Q6 Correct answer: A Why A is correct: A car payment of exactly $350 every month is a fixed expense — same amount, same schedule. **Why B is wrong:** Variable expenses change month to month (gas, groceries); $350 never moves. **Why C is wrong:** Discretionary expenses are optional wants; a contractual loan payment is an obligation. **Why D is wrong:** It's fully planned and scheduled — the opposite of unplanned. **AP skill tested:** describe **Exam trap:** Classify by *behavior of the amount*, not the category of the item. Car-related costs split: the payment is fixed; the fuel is variable.

Chapter 25 — Q7 Correct answer: D Why D is correct: With no state income tax withheld, Samira keeps the roughly 5% her counterpart loses — higher net income from the same gross. **Why A is wrong:** Federal tax is set by federal law and doesn't rise because a state declines to tax income. **Why B is wrong:** Fewer deductions means *higher* net income, not lower. **Why C is wrong:** Social Security is a flat federal 6.2% everywhere — state residence doesn't change it. **AP skill tested:** apply **Exam trap:** Keep the tax layers separate: federal, state, and FICA are independent. Removing one layer doesn't change the others.

Chapter 25 — Q8 Correct answer: C Why C is correct: A budget is a living plan — when reality shows a consistent $50 grocery overrun, raise that allocation and cut another category so the budget still balances. **Why A is wrong:** The budget *is* working — it just revealed a mis-estimate; quitting throws away the information. **Why B is wrong:** Ignoring a repeated variance defeats the purpose of tracking. **Why D is wrong:** The method isn't the problem — one line item is; switching systems doesn't fix an allocation error. **AP skill tested:** decision-making **Exam trap:** Budget-variance questions always credit "adjust and rebalance." Abandon, ignore, and overhaul are the three stock distractors.

Chapter 26 — Managing Personal Risk

Chapter 26 — Q1 Correct answer: C Why C is correct: With only $800 in savings, Imani cannot absorb Plan A's $3,500 deductible in a bad year; Plan B's higher premium buys a far lower ceiling on potential losses ($800 deductible, $3,200 out-of-pocket max) that matches her low financial resilience. **Why A is wrong:** "Will never reach their deductible" is an assumption, not a plan — young, healthy people have accidents and unexpected diagnoses too. **Why B is wrong:** "Regardless of health status" ignores the whole point of the comparison: the premium saving evaporates the first time a large bill hits the $3,500 deductible she can't cover. **Why D is wrong:** The copay difference is $15 × 2 visits = $30/year — trivial next to the $2,700 deductible gap; it's the right plan for a nearly irrelevant reason. **AP skill tested:** decision-making **Exam trap:** Insurance-choice questions turn on ability to self-insure. Match the deductible to the person's savings, not the premium to their optimism — and beware the right-answer-wrong-reason distractor (D).

Chapter 26 — Q2 Correct answer: C Why C is correct: Premiums and deductibles trade off: paying more per month (higher premium) buys a lower deductible, and vice versa. **Why A is wrong:** Higher premiums paired with higher deductibles would mean paying more for less protection — the opposite of how plans are priced. **Why B is wrong:** They're different concepts (monthly cost vs. threshold before coverage) and are almost never equal. **Why D is wrong:** The inverse relationship is one of the most consistent patterns in insurance pricing. **AP skill tested:** describe **Exam trap:** Remember it as buying down risk: premium dollars purchase a lower deductible. If an option denies any relationship, it's wrong.

Chapter 26 — Q3 Correct answer: A Why A is correct: Renters insurance covers a tenant's personal belongings (and liability) — exactly what a student renting an apartment needs. **Why B is wrong:** Life insurance protects dependents from lost income; a typical student has no dependents relying on their earnings. **Why C is wrong:** Homeowners insurance covers a building you own; the landlord insures the structure. **Why D is wrong:** Commercial property insurance covers business premises, not a personal apartment. **AP skill tested:** apply **Exam trap:** The landlord's policy covers the *building*, never the tenant's *stuff* — that gap is what renters insurance exists to fill.

Chapter 26 — Q4 Correct answer: A Why A is correct: Disability insurance replaces a portion of your income when illness or injury prevents you from working — protecting your single largest asset, your earning power. **Why B is wrong:** Rehabilitation and therapy costs are health-insurance territory; disability insurance pays income, not treatment bills. **Why C is wrong:** Home accessibility modifications aren't the core benefit — income replacement is. **Why D is wrong:** Medical bills are covered by health insurance; disability coverage addresses the paycheck you stop earning. **AP skill tested:** describe **Exam trap:** Keep the lanes straight: health insurance pays *medical costs*; disability insurance replaces *lost income*. Distractors always cross the lanes.

Chapter 26 — Q5 Correct answer: D Why D is correct: A $200,000 house fire is low-probability but financially catastrophic — the exact profile of a risk you transfer to an insurer because you cannot absorb it. **Why A is wrong:** A $50 textbook is a minor loss easily self-insured from savings. **Why B is wrong:** An $80 tire is routine and affordable out of pocket. **Why C is wrong:** A $150 screen repair stings but doesn't threaten financial stability — self-insure it. **AP skill tested:** apply **Exam trap:** The insure/self-insure rule: insure what you *can't afford to lose*, self-insure what you can. Dollar magnitude relative to your resources decides, not annoyance.

Chapter 26 — Q6 Correct answer: B Why B is correct: Freezing your credit at all three bureaus blocks anyone — including a thief with your data — from opening new credit accounts in your name. **Why A is wrong:** One reused password means one breach compromises every account — it multiplies risk. **Why C is wrong:** Your Social Security number should be shared with essentially no one who doesn't legally require it, friends included. **Why D is wrong:** Annual checking gives fraud up to a year to run undetected; monitoring should be frequent. **AP skill tested:** apply **Exam trap:** Identity-theft answers rank by preventive power: a credit freeze *prevents* new-account fraud; monitoring merely *detects* it later. Prevention beats detection.

Chapter 26 — Q7 Correct answer: B Why B is correct: A copay is a fixed dollar amount you pay for a specific service — $25 per doctor visit, $10 per prescription. **Why A is wrong:** A policy's annual payment ceiling is the coverage limit, not a copay. **Why C is wrong:** The monthly cost of keeping the policy is the premium. **Why D is wrong:** The amount you pay before coverage kicks in is the deductible. **AP skill tested:** describe **Exam trap:**

The four vocabulary terms — premium (monthly cost), deductible (pay first), copay (per service), coverage limit (insurer's max) — are shuffled across the options; nail each definition.

Chapter 26 — Q8 Correct answer: D Why D is correct: With $500 in savings and no safety net, Marcus has very low capacity to absorb losses — he should buy down risk with lower deductibles even though premiums cost more monthly. **Why A is wrong:** High deductibles gamble that nothing goes wrong; one $2,000 bill would be uncoverable from $500 in savings. **Why B is wrong:** Skipping insurance leaves him one accident away from unpayable debt — maximum exposure for the most vulnerable person. **Why C is wrong:** Legal minimums (auto liability) protect *others*; his health, property, and income would remain unprotected. **AP skill tested:** decision-making **Exam trap:** Risk tolerance is financial, not emotional: low savings = low ability to self-insure = choose predictable premiums over unpayable deductibles. (Compare Q1 — same principle, same answer logic.)

Chapter 27 — Investing for Life Goals

Chapter 27 — Q1 Correct answer: D Why D is correct: Rule of 72: DeShawn doubles in 72 ÷ 8 = 9 years; Priya in 72 ÷ 4 = 18 years — Priya takes 9 more years. **Why A is wrong:** Doubling time depends only on the growth *rate*; equal starting amounts don't equalize the timelines. **Why B is wrong:** 3 years results from misapplying the rule (e.g., dividing the rates or subtracting wrong figures). **Why C is wrong:** 18 years is Priya's *total* doubling time, not the *difference* the question asks for. **AP skill tested:** apply **Exam trap:** Answer the question asked: the difference (18 − 9 = 9), not either doubling time alone. Option C is the classic "right intermediate number, wrong final answer."

Chapter 27 — Q2 Correct answer: A Why A is correct: Roth IRA = after-tax contributions, tax-free qualified withdrawals; Traditional IRA = pre-tax contributions, taxed withdrawals — the tax timing is the defining difference. **Why B is wrong:** Both IRA types can hold stocks, funds, bonds, and more. **Why C is wrong:** Both have annual contribution limits set by the IRS. **Why D is wrong:** IRAs are *individual* retirement accounts opened on your own; the employer-based account is the 401(k). **AP skill tested:** describe **Exam trap:** Memorize it as "pay tax now (Roth) vs. pay tax later (Traditional)." Distractor D preys on IRA/401(k) confusion — the "I" means individual.

Chapter 27 — Q3 Correct answer: A Why A is correct: 60% in employer stock plus a tech-heavy large-cap fund means Lucia's job, her biggest holding, and her second-biggest holding all sink together in a software downturn — concentrated, correlated risk. **Why B is wrong:** A 10% bond/5% cash sleeve isn't "too conservative"; and conservatism isn't the portfolio's problem — concentration is. **Why C is wrong:** Holding three asset-class labels doesn't create diversification when 85% of the portfolio moves with one sector. **Why D is wrong:** Four categories ≠ low correlation; diversification is about how holdings move *relative to each other*, not how many boxes are checked. **AP skill tested:** interpret data **Exam trap:** Diversification questions test correlation, not counting. The double-exposure red flag — salary *and* portfolio riding the same employer/sector — is the detail the credited answer must name.

Chapter 27 — Q4 Correct answer: B Why B is correct: Private student loans carry the highest rates and the fewest borrower protections (no income-driven repayment, limited forgiveness), so they belong at the end of the funding order. **Why A is wrong:** Scholarships are free money — always first. **Why C is wrong:** Federal loans have lower fixed rates and strong protections, making them the *preferred* borrowing before private debt. **Why D is wrong:** 529 savings are the family's own tax-advantaged money, used before borrowing at all. **AP skill tested:** decision-making **Exam trap:** The funding hierarchy is free money → own savings → federal loans → private loans. "Use LAST" flips the question — don't pick the *first* resort by reflex.

Chapter 27 — Q5 Correct answer: C Why C is correct: Index funds charge far lower fees (often ~0.05% vs. ~1%), and that cost gap compounds over decades into a decisive performance advantage after most active managers fail to beat the market consistently. **Why A is wrong:** Index funds don't pick "higher-quality" stocks — they hold the whole market by design. **Why B is wrong:** Their long-run edge doesn't come from taking on extra risk; they simply match the market. **Why D is wrong:** No stock fund is government-guaranteed — index funds can and do lose value. **AP skill tested:** explain **Exam trap:** The mechanism is fees compounding, not stock-picking skill. Any option implying index funds "choose better stocks" misunderstands what indexing is.

Chapter 27 — Q6 Correct answer: C Why C is correct: Starting at 22 gives the money an extra decade of compounding, and because growth compounds on growth, those early years disproportionately expand the final amount. **Why A is wrong:** Tax rates depend on income, not on the investor's age. **Why B is wrong:** Fund fees aren't waived for the young — no such rule exists. **Why D is wrong:** The market returns the same rate to everyone; the young investor's edge is *time*, not a better rate. **AP skill tested:** explain **Exam trap:** Every distractor invents an age-based perk. The only real advantage of youth is more compounding periods — time in the market.

Chapter 27 — Q7 Correct answer: B Why B is correct: Planning to relocate in 1–2 years favors renting: closing costs, agent fees, and moving costs can't be recouped through appreciation or equity in so short a window. **Why A is wrong:** Building equity is the signature argument for *buying*. **Why C is wrong:** Low mortgage rates make borrowing cheaper — a pro-buying factor. **Why D is wrong:** Rapidly rising property values reward owners, again favoring buying. **AP skill tested:** decision-making **Exam trap:** Time horizon dominates the rent-vs-buy decision. Three of the four options are pro-buying factors — the short horizon is the lone (and decisive) pro-renting signal.

Chapter 27 — Q8 Correct answer: D Why D is correct: The employee contributes 3% of $60,000 = $1,800; the employer matches 100% of contributions up to 5%, so it matches the full $1,800; total = $3,600. **Why A is wrong:** $1,800 counts only the employee's contribution and forgets the match entirely. **Why B is wrong:** $3,000 is 5% of salary — the match *ceiling*, not what was actually contributed and matched. **Why C is wrong:** $6,000 assumes both sides contributed the full 5% ($3,000 + $3,000), but the employee only put in 3%. **AP skill tested:** apply **Exam trap:** The employer matches what the employee *actually contributes*, capped at the stated percentage. Note the buried lesson: contributing below the match cap leaves free money ($1,200 here) on the table.