ASSESSMENT QUESTIONS

Chapter 7: Margins, Markups, and Markdowns

True or False

Identify whether the following statements are true or false and circle the correct answer.

T  F  1. To calculate margin, divide profit amount by retail selling price.

T  F  2. Due to the uncertainty of successful sales on all styles, a markdown/close-out percent is added to a cost sheet.

T  F  3. Margins and markups measure profits in similar ways.

T  F  4. Garment styles generally hit the sales rack one to two weeks after arriving on the selling floor or online.

T  F  5. It is unnecessary to recost returning styles.

Multiple Choice

Select the best response.

1. Which statement is false?
   a. Markups are always higher than margins.
   b. A 100 percent markup equals a 50 percent margin.
   c. Markup is the difference between cost and selling price.
   d. Companies choose one definitive markup percent to add to every style.
   e. All statements are true.

2. If you charge $20/hat for your new line of hats and it costs you $12 to produce each hat, what is your margin?
   a. 4 percent
b. 20 percent
c. 40 percent
d. 80 percent

3. What risk does a new company face with a consignment deal?
   a. Unsold merchandise may not be returned.
   b. Payment is not guaranteed.
   c. The profit margin must be decreased
   d. All statements are true.

4. A markdown percentage may be added to a cost sheet for what reason?
   a. To differ costs of expansion.
   b. To alleviate pressure from encroaching competition.
   c. Because the market is oversaturated with your product.
   d. Because items are left over after the initial selling period or season.

5. A brand has recently introduced a new line of colors for their secondary product while still maintaining prices on their flagship product. What phase might their flagship product be at the end of
   a. Introductory phase
   b. Growth phase
   c. Maturity phase
   d. Decline phase.
Key for Chapter 7 Assessment Questions

True-False
1. T
2. T
3. F
4. F
5. F

Multiple Choice
1. e
2. c
3. b
4. d
5. c