

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) If a producing firm does not have enough time to expand its plant capacity, it is: 1) _____
A) bankrupt. B) operating in the short run.
C) operating in the long run. D) losing money.
- 2) Economic costs of production differ from accounting costs of production in that: 2) _____
A) economic costs include expenditures for hired resources while accounting costs do not.
B) economic costs add the opportunity cost of a firm using its own resources.
C) accounting costs are always larger than economic costs.
D) accounting costs include expenditures for hired resources while economic costs do not.
- 3) An example of a long run adjustment is: 3) _____
A) a soybean farmer turns on the irrigation system after a month long dry spell.
B) Walmart builds another Supercenter.
C) your university offers Saturday morning classes next fall.
D) Ford Motor Company lays off 2,000 assembly line workers.
- 4) The reason the marginal product of labor in the short run increases at first and then falls is because: 4) _____
A) the management is inefficient.
B) there are fewer opportunities for division of labor and specialization.
C) as more labor is hired, they are not as skilled as the first ones hired.
D) the extra workers have busy work piled on them.
- 5) If 11 workers can produce a total of 54 units of a product and another worker has a marginal product of six, then the average product of 12 workers is: 5) _____
A) 5. B) 48. C) 54. D) 60.
- 6) Economies of scale exist because as a firm increases its size in the long run: 6) _____
A) labor and management can specialize their activities more.
B) as a larger input buyer the firm can purchase inputs at a lower per unit cost.
C) the firm can afford more sophisticated technology in production.
D) all of these.

- 7) In natural monopolies such as the generation of electricity, long-run average costs continue to decrease as the plant size gets larger, because:
- A) diseconomies of scale are very minor but economies of scale continue.
 - B) there are no fixed costs.
 - C) someone must have made a mistake at lower levels of output.
 - D) diminishing returns are not present.

7) _____

Refer to Figure 10.2 for the questions below.

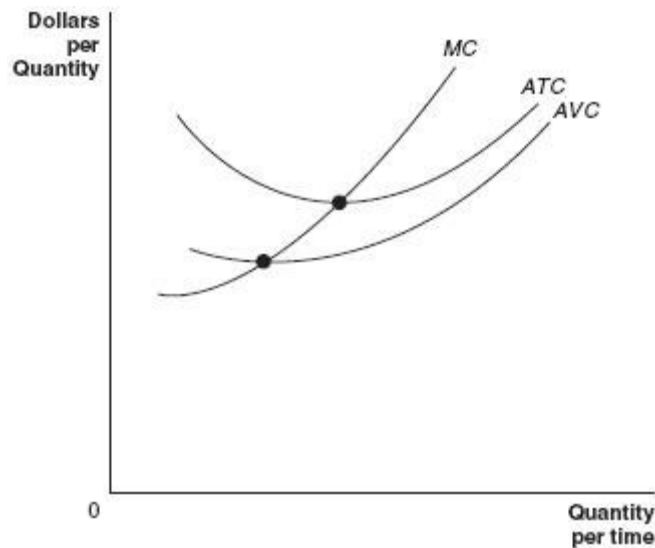


Figure 10.2

- 8) In figure 10.2, the difference between average total costs and average variable costs is:
- A) fixed costs.
 - B) average fixed costs.
 - C) marginal costs.
 - D) sunk costs.
- 9) In figure 10.2, average variable costs approach average total costs as output rises because:
- A) fixed costs are falling.
 - B) total costs are falling.
 - C) marginal costs are above average variable costs.
 - D) average fixed costs are falling.
- 10) In figure 10.2, when marginal costs are rising:
- A) marginal product of labor is declining.
 - B) average variable costs are also rising.
 - C) average total costs are also rising.
 - D) all of the above.

8) _____

9) _____

10) _____

- 11) Both individual buyers and sellers in perfect competition: 11) _____
- A) have the market price dictated to them by government.
 - B) have to take the market price as a given.
 - C) can influence the market price by their own individual actions.
 - D) can influence the market price by joining with a few of their competitors.
- 12) If a perfectly competitive seller is producing at an output where price is \$11 and the marginal cost is \$14.54, then to maximize profits the firm should: 12) _____
- A) produce a larger level of output.
 - B) not enough information given to answer the question.
 - C) produce a smaller level of output.
 - D) continue producing at the current output.
- 13) A very large number of small sellers who sell identical products implies: 13) _____
- A) downward sloping demand for each seller's product.
 - B) the inability of one seller to influence price.
 - C) a multitude of vastly different selling prices.
 - D) chaos in the market.

Refer to Figure 11.1 for the questions below.

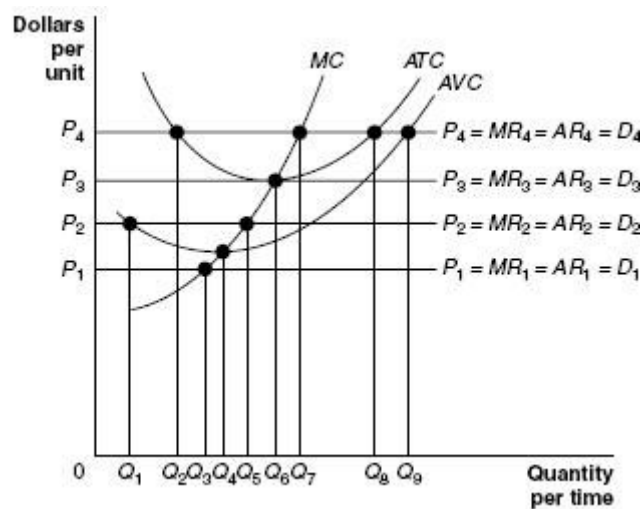


Figure 11.1

- 14) At price P1, the firm in figure 11.1 would produce: 14) _____
- A) zero.
 - B) Q3.
 - C) Q5.
 - D) Q6.
- 15) At price P2, the firm in figure 11.1 would produce: 15) _____
- A) Q6.
 - B) zero.
 - C) Q5.
 - D) Q1.

- 16) At price P1, the firm in figure 11.1 would: 16) _____
A) break even. B) lose more than fixed costs.
C) lose less than fixed costs. D) lose fixed costs.
- 17) At price P3, the firm in figure 11.1 would: 17) _____
A) suffer a loss equal to fixed costs. B) make a profit.
C) break even. D) suffer a loss less than fixed costs.
- 18) At price P4 in the long run, the industry including the firm in figure 11.1 would: 18) _____
A) cease to exist. B) have exit of some existing firms.
C) have entry of new firms. D) remain the same size.
- 19) At price P2 in the long run, the industry including the firm in figure 11.1 would: 19) _____
A) cease to exist. B) have entry of new firms.
C) remain the same size. D) have exit of some existing firms.
- 20) When a competitive firm finds that the market price is below its minimum average variable cost level, it will sell: 20) _____
A) any positive output the entrepreneur decides upon because all of it can be sold.
B) nothing at all, the firm shuts down.
C) the output where average total costs equal price.
D) the output level where marginal revenue equals marginal cost.
- 21) If, as the industry expands, a competitive industry can supply larger quantities at the same long-run market price, it is: 21) _____
A) a decreasing-cost industry. B) a fixed-cost industry.
C) an increasing-cost industry. D) a constant-cost industry.
- 22) A local electricity-generating company has a monopoly that is protected by a barrier to entry that takes the form of: 22) _____
A) network externalities. B) control of a key raw material.
C) economies of scale. D) none of the above.

Refer to Figure 14.1 for the questions above.

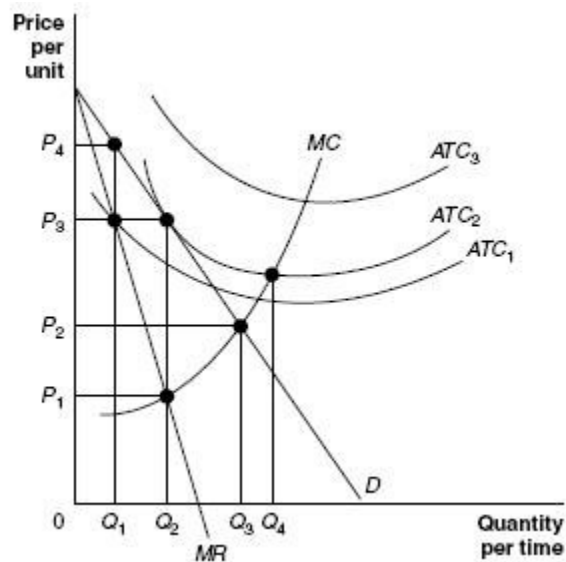


Figure 14.1

- 23) To profit maximize the firm in figure 14.1 will produce: 23) _____
 A) Q1. B) Q2. C) Q3. D) Q4.
- 24) The profit maximize price for the firm in figure 14.1 is: 24) _____
 A) P1. B) P2. C) P3. D) P4.
- 25) If average total costs are ATC1, the firm in figure 14.1 will: 25) _____
 A) break even. B) face competition.
 C) make a profit. D) suffer a loss.
- 26) In figure 14.1, the difference between the monopoly output and the competitive output is: 26) _____
 A) Q2-Q1. B) Q3-Q1. C) Q4-Q2. D) Q3-Q2.
- 27) A profit maximizing monopolist's price is: 27) _____
 A) equal to what the price would be if the monopolist's industry were competitive.
 B) not consistently related to price if the market were competitive.
 C) less than what the price would be if the monopolist's industry were competitive.
 D) greater than what the price would be if the monopolist's industry were competitive.

- 28) The important economic concept illustrated by increasing opportunity costs is: 28) _____
- A) how easy it is to slip into inefficient production.
 - B) the law of scarcity.
 - C) the more resources devoted to any activity, the smaller the payoff of devoting more resources to that activity.
 - D) the importance of production and exchange.
- 29) A production possibilities frontier model shows that: 29) _____
- A) a market economy is more efficient in producing goods and services than is a centrally planned economy.
 - B) economic growth can only be achieved by free market economies.
 - C) if consumers decide to buy more of a product its price will increase.
 - D) if all resources are fully and efficiently utilized, more output of good X can only be achieved by producing less of another good.
- 30) If George can mow 10 lawns or cultivate 5 gardens a day while Jack can mow 6 lawns or cultivate 4 gardens a day, then: 30) _____
- A) Jack has a comparative advantage in lawn mowing.
 - B) Jack has a comparative advantage in garden cultivating.
 - C) Jack has an absolute advantage in both lawn mowing and garden cultivating.
 - D) All of the above are correct.
- 31) If last year the Ajax firm sold 250 sofas at \$1,000 each and this year Ajax sold 500 sofas at \$1,500 each, then 31) _____
- A) the quantity demanded has increased.
 - B) the demand for sofas increased.
 - C) Ajax increased the supply of sofas.
 - D) the demand for sofas is up sloping.
- 32) The demand for big screen TVs would fall, if big screen TVs are normal goods and: 32) _____
- A) there is a larger output of big screen TVs.
 - B) buyer's of big screen TVs incomes fall because of a recession.
 - C) the market price of big screen television sets increases.
 - D) the market price of DVDs falls.
- 33) A change in demand represents a _____ while a change in quantity demanded is a _____. 33) _____
- A) movement along one demand curve; movement along another demand curve
 - B) movement along one demand curve; shift to a new demand curve
 - C) shift to a new demand curve; shift to a another new demand curve
 - D) shift to a new demand curve; movement along one demand curve

- 34) If the demand for a good increases when there is high unemployment, we can conclude that the commodity is: 34) _____
- A) an inferior good.
 - B) a good for which the law of demand does not apply.
 - C) a normal good.
 - D) a luxury good.
- 35) An advance in technology increases supply: 35) _____
- A) because buyers are willing to buy more of a product produced with the latest technology.
 - B) because labor's or capital's productivity increases and costs of production fall.
 - C) because new technology is so expensive.
 - D) all of the above.
- 36) When a strike at a major local employer occurs, the demand for television sets in that local market will: 36) _____
- A) decreases because buyers incomes have decreased.
 - B) double because of unemployment benefits and strike pay.
 - C) likely remain unchanged.
 - D) increase because the striking workers need something to do to pass the time.
- 37) If the current market price for a particular book is \$30 a unit and a price ceiling is imposed at \$20 per book, then: 37) _____
- A) there will an increase in the quantity demanded of the book.
 - B) a shortage of the book will develop at the ceiling price.
 - C) a price of \$20 per book is the legally allowed maximum price of the book.
 - D) all of these are correct.
- 38) Among the impacts of the minimum wage is that: 38) _____
- A) higher costs are imposed on employers.
 - B) employers substitute other lower cost inputs in place of higher priced labor.
 - C) higher product prices result because production costs are increased.
 - D) All of the above are impacts of a minimum wage.
- 39) After a city imposes a rent control law: 39) _____
- A) landlords reduce the quantity of apartments offered for rent.
 - B) people who work in the city have less costs of getting to work.
 - C) all who want to rent an apartment in the city can do so.
 - D) All of these occur.

- 40) Consumers pay 100% of a new sales tax on a good: 40) _____
A) always. B) when demand is perfectly elastic.
C) when the demand is perfectly inelastic. D) never as the tax is on the seller.
- 41) Which of the following statements about elasticity of demand is correct? 41) _____
A) Demand is more elastic the smaller percentage of the consumer's budget the item takes up.
B) Demand is more elastic in a long time period than it is in a short time period.
C) The absolute value of the elasticity of demand ranges from zero to one.
D) The elasticity of demand for a good in general is equal to the elasticity of demand for a specific brand of the good.
- 42) Which of the following goods would most likely have the most inelastic demand? 42) _____
A) Ski vacations B) Big screen TVs C) Luxury cars D) Bread
- 43) If at a price of \$100, 10 units were sold while at a price of \$125, eight units were sold, the price elasticity of demand value using the midpoint formula is: 43) _____
A) 2. B) 1.25. C) $\frac{3}{4}$. D) one.
- 44) If at a price of \$50, 20 units are sold and at a price of \$60, 0 units are sold, the price elasticity of demand of the good is: 44) _____
A) perfectly inelastic. B) perfectly elastic.
C) unit elastic. D) elastic.
- 45) When demand is price elastic, a fall in price causes total revenue to rise because: 45) _____
A) percentage increase in quantity demanded is less than the percentage fall in price.
B) the increase in quantity sold is large enough to offset the lower price.
C) when price falls, total revenue automatically rises also.
D) all of the above.
- 46) If the cross-price elasticity of demand for goods A and B is a positive value, this means the two goods are: 46) _____
A) inferior. B) substitutes. C) normal. D) complements.
- 47) If you expect the economy is going to boom and average income in the economy will rise in the foreseeable future, the type of firm that would be able to increase its sales if your expectations are met is: 47) _____
A) one that sells a necessity good. B) one that sells a luxury good.
C) one that sells an inferior good. D) one that sells an elastic good.

48) An external cost is created when you:

48) _____

- A) graduate from college.
- B) buy a sandwich for lunch.
- C) litter on the side of the road.
- D) buy flowers for your mother on Mother's Day.

49) Because producers do not bear the external cost of pollution:

49) _____

- A) the economically efficient level of production is achieved.
- B) the market price is too high.
- C) production is beyond the economically efficient level.
- D) production is below the economically efficient level.

Refer to Figure 5.1 for the questions below.

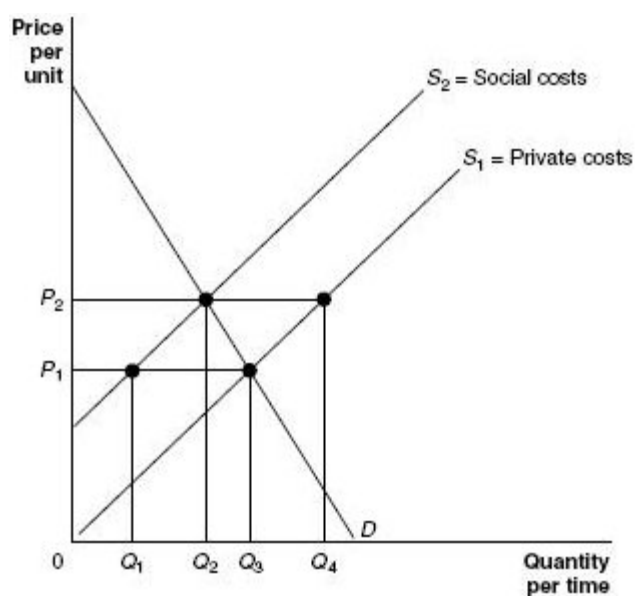


Figure 5.1

50) An efficient way to get the firm in figure 5.1 to produce what society wants is:

50) _____

- A) a tax to make the firm realize the external costs it imposes on others.
- B) to assign property rights to the firm.
- C) for government to order the firm to produce the right amount.
- D) a subsidy to make the firm internalize the external benefits of production.

Answer Key

Testname: FINALEXAM

- 1) B
- 2) B
- 3) B
- 4) B
- 5) A
- 6) D
- 7) A
- 8) B
- 9) D
- 10) A
- 11) B
- 12) C
- 13) B
- 14) A
- 15) C
- 16) D
- 17) C
- 18) C
- 19) D
- 20) B
- 21) D
- 22) C
- 23) B
- 24) C
- 25) C
- 26) D
- 27) D
- 28) C
- 29) D
- 30) A
- 31) B
- 32) B
- 33) D
- 34) A
- 35) B
- 36) A
- 37) D
- 38) D
- 39) A
- 40) C
- 41) B
- 42) D
- 43) D
- 44) B
- 45) B
- 46) B
- 47) B
- 48) C
- 49) C
- 50) A