Ch 9

1. A firm has successfully adopted a positive technological change when

A) it can produce more output using the same inputs.
B) it produces less pollution in its production process.
C) it can pay its workers less yet increase its output.
D) it sees an increase in worker productivity.

Answer: A

2. Vipsana's Gyros House sells gyros. The cost of ingredients (pita, meat, spices, etc.) to make a gyro is $2.00. Vipsana pays her employees $60 per day. She also incurs a fixed cost of $120 per day. What is Vipsana's total cost per day when she does not produce any gyros and does not hire any workers?
A) $0
B) $2
C) $60
D) $120

Answer: D

3. Economic costs of production differ from accounting costs in that
A) economic costs include expenditures for hired resources while accounting costs do not.
B) economic costs add the opportunity costs of a firm using its own resources while accounting costs do not.
C) accounting costs include expenditures for hired resources while economic costs do not.
D) accounting costs are always larger than economic cost.

Answer: B

4. Which of the following are implicit costs for a typical firm?
A) opportunity costs of capital owned and used by the firm
B) the cost of labour hired by the firm
C) utilities cost
D) a business licensing fee

Answer: A

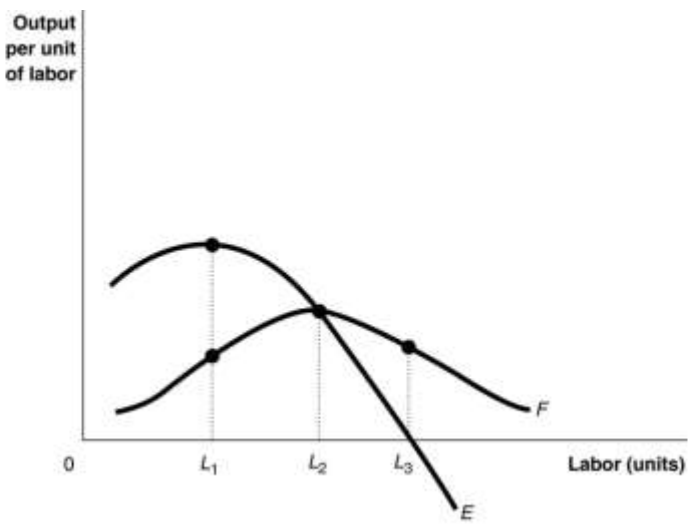
5. When firms analyze the relationship between their level of production and their costs, they separate the time period involved into

A) morning and evening.
B) 6 months or less, 6 months to 1 year, and more than 1 year.
C) a fixed period and a variable period.
D) the short run and the long run.

Answer: D

6. In the short run, marginal product of labour increases at first and then falls because
A) as more labour is hired, they are not as skilled as the first ones hired.
B) there are fewer opportunities for division of labour and specialization when additional workers are hired.
C) managerial inefficiency sets in when a firm gets too large.
D) the new workers do not have as much experience as those who have been with the firm for a long time and therefore are not as productive.

Answer: B



7. Refer to Figure above

Diminishing returns to labour set in
A) after L_1.
B) after L_2.
C) after L_3.
D) immediately.

Answer: A

8. Duddy Lisée owns a firm in Montreal's garment district. If Duddy keeps adding workers to use the same number of sewing machines, eventually the workplace will become so crowded that workers will get in each other's way. At this point

A) the marginal product of labour in Duddy's business would be negative and his total output would decrease.
B) Duddy should encourage his workers to share their sewing machines.
C) Duddy's business will be in violation of safety rules that have been established by the Québec government.
D) Duddy should begin using a division of labour in his business.

Answer: A

9. Which of the following statements is *true*?

A) The average product of labour is at its maximum when the average product of labour equals the marginal product of labour.
B) The average product of labour is at its minimum when the average product of labour equals the marginal product of labour.
C) The average product of labour tells us how much output changes as the quantity of workers hired changes.
D) Whenever the marginal product of labour is greater than the average product of labour, the average product of labour must be decreasing.

Answer: A

10. If 11 workers can produce 53 units of output while 12 workers can produce 56 units of output, what is the marginal product of the 12th worker?

A) 0.16
B) 3
C) 4.67
D) 36

Answer: B

11. If fixed costs do not change, then marginal cost

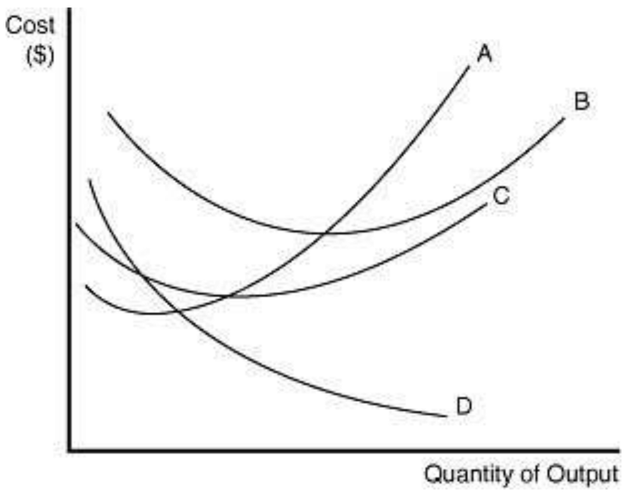
A) also remains constant.
B) equals the change in variable cost divided by the change in output.
C) equals the change in average variable cost divided by the change in output.
D) equals the change in average fixed cost divided by the change in output.

Answer: B

12. Jill Johnson owns a pizzeria. She currently produces 10,000 pizzas per month at a total cost of $500. If she produced one more pizza her total cost would rise to $500.11. What does this tell us about Jill's marginal cost of producing pizzas?

A) The marginal cost of producing pizzas is constant.
B) The marginal cost of producing pizzas is falling.
C) The marginal cost of producing pizzas cannot be determined without more information.
D) The marginal cost of producing pizzas is rising.

Answer: D



13. Refer to Figure . In the figure above, which letter represents the average total cost curve?
A) *A*
B) *B*
C) *C*
D) *D*

Answer: B

14. At the minimum efficient scale,
A) all possible economies of scale have not been exhausted.
B) the firm has achieved the lowest possible average cost of production.
C) any increases in the scale of operation will encounter further economies of scale.
D) marginal cost is at its minimum.

Answer: B

15. If, when a firm doubles all its inputs, its average cost of production increases, then production displays

A) diminishing returns.
B) economies of scale.
C) diseconomies of scale.
D) declining fixed costs.

Answer: C

16. Economies of scale exist as a firm increases its size in the long run because of all of the following *except*

A) the firm can afford more sophisticated technology in production.
B) labour and management can specialize even further in their tasks.
C) as a larger input buyer, the firm can purchase inputs at a lower per unit cost.
D) as a firm expands its production, its profit margin per-unit of output increases.

Answer: D

17. If production displays economies of scale, the long-run average cost curve is

A) above the short-run average total cost curve.
B) downward sloping.
C) upward sloping.
D) below the long-run marginal cost curve.

Answer: B

Ch 10

18. Assume the market for organically-grown produce is perfectly competitive. All else equal, as farmers find it less profitable to produce and sell organic produce in this market,

A) the demand curve will shift to the left and the equilibrium price will decrease.
B) the supply curve will shift to the left and the equilibrium price will increase.
C) the supply curve will shift to the right, the demand curve will shift to the left, and the equilibrium price will decrease.
D) the supply curve will shift to the left, the demand curve will shift to the left, and the equilibrium price will increase.

Answer: B

19. Which of the following is *not* a characteristic of a perfectly competitive market structure?
A) There are a very large number of firms that are small compared to the market.
B) All firms sell identical products.
C) There are no restrictions to entry by new firms.
D) There are restrictions on exit of firms.

Answer: D

20. Jason, a high-school student, mows lawns for families in his neighbourhood. The going rate is $12 for each lawn-mowing service. Jason would like to charge $20 because he believes he has more experience mowing lawns than the many other teenagers who also offer the same service. If the market for lawn mowing services is perfectly competitive, what would happen if Jason raised his price?

A) He would lose some but not all his customers.
B) Initially, his customers might complain but over time they will come to accept the new rate.
C) If Jason raises his price he would lose all his customers.
D) If Jason raises his price, then all others supplying the same service will also raise their prices.

Answer: C

21. Firms in perfect competition are price takers because

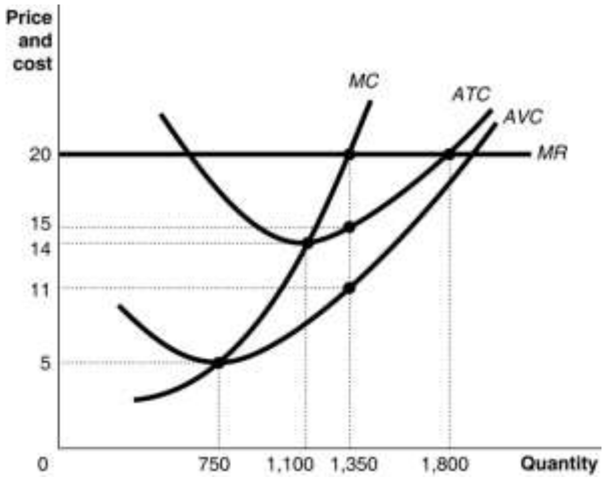
A) one firm determines the price that all other firms in the industry will charge.
B) consumers have enough market power to set prices.
C) firms accept the price determined by the government.
D) each firm is too small relative to the market to be able to influence price.

Answer: D

22. Which of the following offers the best reason why restaurants are *not* considered to be perfectly competitive firms?

A) Restaurants do not sell identical products.
B) Restaurants compete in small market areas—neighborhoods and cities—rather than in regional or national markets. Therefore, restaurants are not small relative to their market size.
C) Restaurants usually have entry barriers in the form of zoning restrictions and health regulations.
D) Restaurants have significant liability costs that perfectly competitive firms do not have; for example, customers may sue if they suffer from food poisoning.

Answer: A



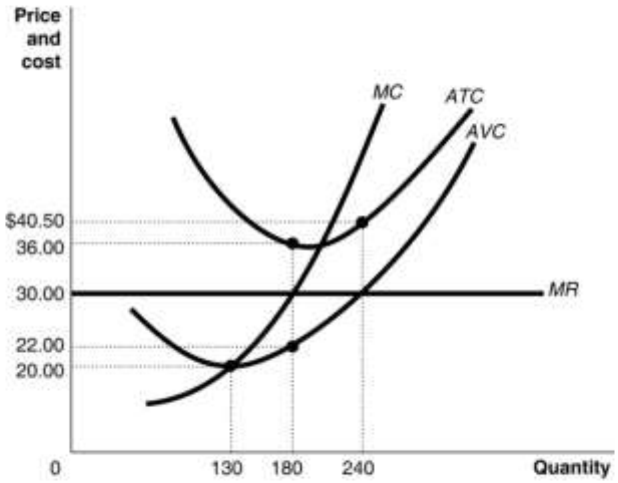
23. Refer to Figure . If the firm's fixed cost increases by $1,000 due to a new environmental regulation, what happens in the diagram above?

A) All the cost curves shift upward.
B) Only the average variable cost and average total cost curves shift upward; marginal cost is not affected.
C) Only the average total cost curve shifts upward; the marginal cost and average variable cost curves are not affected.
D) None of the curves shifts; only the fixed cost curve, which is not shown here, is affected.
Answer: C

24. Refer to Figure . If the market price is $20, what is the average profit at the profit-maximizing quantity?

A) $5
B) $6
C) $9
D) $20

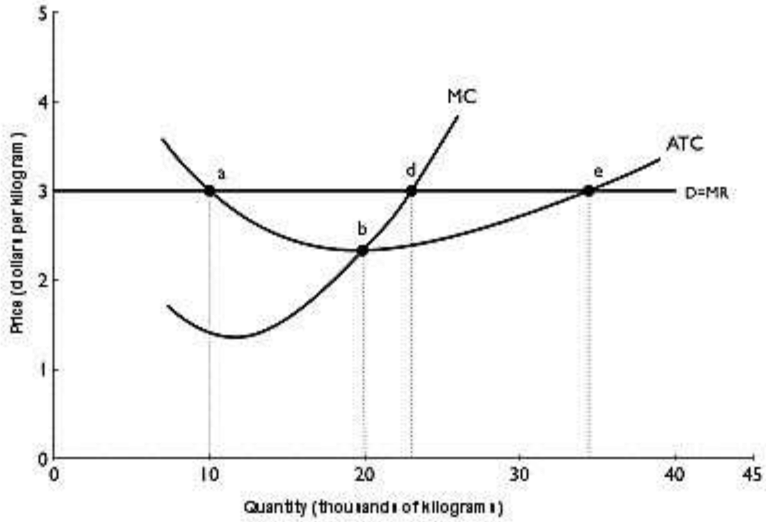
Answer: A



25. Refer to Figure . If the market price is $30, the firm's profit-maximizing output level is
A) 0.
B) 130.
C) 180.
D) 240.

Answer: C

26. A firm will make a profit when
A) $P > AVC$.
B) $P > ATC$.
C) $P = ATC$.
D) $P = MC$.
Answer: B



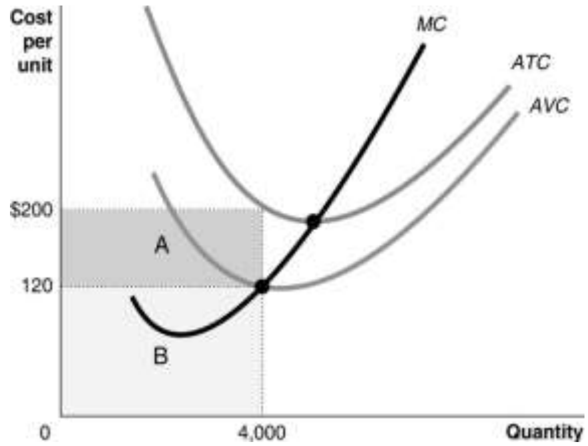
27. Figure shows the demand, marginal cost (*MC*), and average total cost (*ATC*) curves for Jason's House of Apples.

Which of the following statements is *true*?
A) Jason should produce where *MC* equals $3 (point *d*), where he will minimize his losses.
B) Jason should produce where the distance between *MC* and his demand curve is greatest (point *b*).
C) Jason cannot earn a profit from selling any number of apples.
D) Jason should produce where *MC* equals $3 (point *d*), where he will maximize his profit.

Answer: D

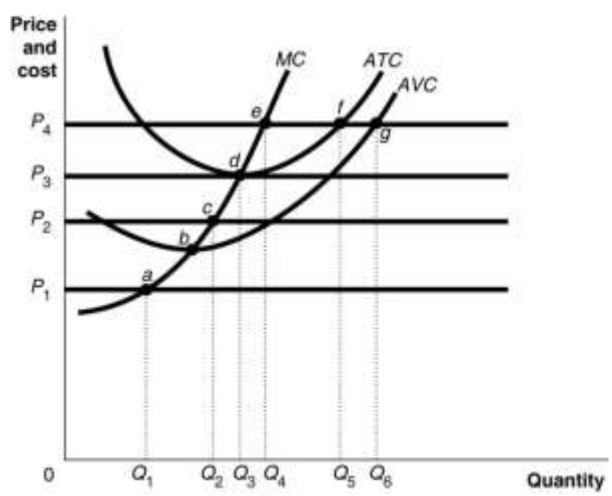
28. To maximize his profit, Jason should produce the rate of output indicated by point
A) *a.*
B) *b.*
C) *e.*
D) *d.*

Answer: D



29. Refer to Figure . Suppose the firm produces 4,000 units. What does the shaded area labeled *A* represent?
A) total variable cost
B) profit
C) total fixed cost
D) total revenue

Answer: C



30. Refer to Figure Identify the short-run shut down point for the firm.
A) *a*
B) *b*
C) *c*
D) *d*

Answer: B

31. The supply curve of a perfectly competitive firm in the short run is

A) the firm's average variable cost curve.
B) the portion of the firm's marginal cost curve below the minimum point of the average variable cost curve.
C) the portion of the firm's marginal cost curve above the minimum point of the average variable cost curve.
D) the portion of the firm's marginal cost curve above the minimum point of the average total cost curve.

Answer: C

Ch 12

32. Which of the following is *not* part of an oligopolist's business strategy?
A) meeting worker health and safety standards required of all firms
B) deciding the level of total output of a new product
C) determining the amount of advertising a new product needs
D) setting the product's price after considering what rivals will do
Answer: A

33. An oligopoly firm is similar to a monopolistically competitive firm in that
A) both firms face the prisoner's dilemma.
B) both operate in a market in which there are entry barriers.
C) both firms have market power.
D) both firms are in industries characterized by an interdependent firm.
Answer: C

34. Which of the following is the best example of an oligopolistic industry?
A) the beef market
B) the pharmaceutical industry
C) public education
D) the beauty products industry
Answer: B

35. Marginal revenue for an oligopolist is
A) identical to the demand for the firm's product.
B) difficult to determine because the firm's demand curve is typically unknown.
C) downward sloping beneath the firm's demand curve.
D) horizontal on a price-quantity diagram.
Answer: B

36. Which of the following is *not* a reason why government officials are willing to impose entry barriers?
A) to raise revenue
B) to encourage innovation which may improve the standard of living in the long run
C) to increase economic efficiency
D) to promote an equitable distribution of income
Answer: D

37. When large firms in oligopoly markets cut their prices,
A) rival firms will also cut their prices to avoid losing sales.
B) rival firms will not change their prices because most of their customers have signed contracts that commit them to doing business with the same firms for the life of their contracts.
C) we don't know for sure how rival firms will respond.
D) rival firms will not cut their prices because they fear that the federal government will accuse them of collusion.
Answer: C

38. A four-firm concentration ratio measures
A) the extent to which industry sales are concentrated among the four largest firms in the industry.
B) the price elasticity of demand among the four largest firms in an industry.
C) the number of firms in an industry.
D) the price elasticity of demand in an industry.
Answer: A

39. PotashCorp, the Potash Corporation of Saskatchewan, controls most of the world's supply of potash. What type of entry barrier was responsible for PotashCorp's position in the potash industry?
A) ownership of a key input
B) a government-imposed barrier
C) a patent on the manufacture of aluminum
D) economies of scale
Answer: A

40. Consider a U-shaped long-run average cost curve that has a minimum efficient scale at 6,000 units of output. In this case, this industry would be
A) perfectly competitive if the market quantity demanded is 20,000 units.
B) monopolistically competitive if the market quantity demanded is 12,000 units.
C) an oligopoly if the market quantity demanded is 18,000 units.
D) an oligopoly if the four-firm concentration ratio is more than 10 percent.
Answer: C

41. Of all barriers to entry, the most important are those that are due to
A) ownership of a key input.
B) economies of scale.
C) government-imposed barriers.
D) the Herfindahl-Hirschman Index.
Answer: B

42. The profit-maximizing level of output and the profit-maximizing price for an oligopolist cannot be calculated when we don't know
A) what the concentration ratio for the oligopolist's industry is.
B) what the minimum efficient scale in the oligopolist's industry is.
C) the demand curve and the marginal revenue curve of the oligopolist.
D) the type of barrier to entry that exists in the oligopolist's industry.
Answer: C

43. All of the following are characteristics of game theory *except*
A) rules that determine what actions are allowable.
B) payoffs that are the results of the interaction among players' strategies.
C) strategies that players employ to attain their objectives.
D) independence among players.
Answer: D

44. A dominant strategy
A) is one that is the best for a firm, no matter what strategies other firms use.
B) is one that a firm is forced into following by government policy.
C) involves colluding with rivals to maximize joint profits.
D) involves deciding what to do after all rivals have chosen their own strategies.
Answer: A

45. What is a prisoner's dilemma?
A) a game that involves no dominant strategies
B) a game in which prisoners are stumped because they cannot communicate with each other
C) a game in which players act in rational, self-interested ways that leave everyone worse off
D) a game in which players collude to outfox authorities
Answer: C

		Godrickporter's (G) Choices	
		Increase advertising budget	*Leave advertising budget as is*
Star Connections' (S) Choices	*Increase advertising budget*	G: $16,000 profit S: $8,000 profit	G: $12,000 profit S: $15,000 profit
	Leave advertising budget as is	G: $8,000 profit S: $10,000 profit	G: $6,000 profit S: $12,000 profit

Godrickporter and Star Connections are the only two airport shuttle and limousine rental service companies in the mid-sized town of Godrick Hollow. Each firm must decide on whether to increase its advertising spending to compete for customers. Table shows the payoff matrix for this advertising game.

46.
Is there a dominant strategy for Star Connections and if so, what is it?
A) No, its outcome depends on what Godrickporter does.
B) Yes, Star Connections should increase its advertising spending.
C) Yes, Star Connections should reduce its advertising spending.
D) Yes, Star Connections' dominant strategy is to collude with Godrickporter.
Answer: A

47. ***Refer to Table above,*** Let's suppose the game starts with each firm adhering to its original budget so that Godrickporter earns a profit of $6,000 and Star Connections earns a profit of $12,000. Is there an incentive for any one firm to increase its advertising budget?
A) No, neither firm has an incentive to raise its advertising spending.
B) Yes, both firms have an incentive to raise their advertising budgets.
C) Yes, Star Connections has an incentive to increase its advertising budget, but Godrickporter does not.
D) Yes, Godrickporter has an incentive to increase its advertising budget, but Star Connections does not.
Answer: D

48. ***Refer to Table above.*** What is the Nash equilibrium in this game?
A) There is no Nash equilibrium.
B) Godrickporter increases its advertising budget, but Star Connections does not.
C) Star Connections increases its advertising budget, but Godrickporter does not.
D) Both Godrickporter and Star Connections increase their advertising budgets.
Answer: B

49. Consider two oligopolistic industries selling the same product in different locations. In the first industry, firms always match price changes by any other firm in the industry. In the second industry, firms always ignore price changes by any other firm. Which of the following statements is *true* about these two industries, holding everything else constant?
A) Market prices are likely to be higher in the first industry in which firms always match price changes by rival firms than in the second where firms ignore their rivals' price changes.
B) Market prices are likely to be lower in the first industry where firms always match price changes by rival firms than in the second where firms ignore their rivals' price changes.
C) Market prices are likely to be the same in both markets because they are both oligopolistic markets.
D) No conclusions can be drawn about the pricing behaviour under these very different firm behaviours.
Answer: A

50. A member of a cartel like OPEC has an incentive to
A) argue for larger production quotas for each member of the cartel.
B) agree to a low cartel production level and then produce more than its quota.
C) abide by its individual production quota.
D) support equal production quotas for each member.
Answer: B

51. OPEC periodically meets to agree to restrict the cartel's oil output, and yet almost every member of OPEC produces more than its own output quota. This suggests that OPEC has
A) a cooperative equilibrium.
B) a noncooperative equilibrium.
C) new potential entrants.
D) a threat of substitute goods.
Answer: B

52. Why does a prisoner's dilemma lead to a noncooperative equilibrium?
A) because each player had agreed before the game started to minimize the harm that he can inflict on the other players
B) because each player is uncertain how other players will play the game
C) because players must choose from a limited number of non-dominant strategies
D) because each rational player has a dominant strategy to play a certain way, regardless of what other players do
Answer: D

53. Which of the following is *not* among Porter's competitive forces?
A) power of buyers
B) power of suppliers
C) threat of new entrants
D) changing consumer tastes
Answer: D

54. As word processing on personal computers expanded, sales of typewriters began to disappear. Which of Porter's competitive forces does this event demonstrate?
A) the threat of competition from new entrants
B) bargaining power of suppliers
C) bargaining power of buyers
D) competition from substitute goods or services
Answer: D

55. The bargaining power of suppliers increases if
A) the cost of switching suppliers is relatively low.
B) there are only a few competitors to the supplier.
C) the input in question is not a critical component of production.
D) the input supplied is relatively standardized.
Answer: B

Ch 13

56. A monopoly is a seller of a product

A) with many substitutes.
B) without a close substitute.
C) with a perfectly inelastic demand.
D) without a well-defined demand curve.

Answer: B

57. If we use a narrow definition of monopoly, then a monopoly is defined as a firm
A) that has been granted special production rights by the government.
B) that can ignore the actions of all other firms because it produces a superior product compared to its rivals' products.
C) that can ignore the actions of all other firms because it produces a product for which there are no close substitutes.
D) that has the largest market share in an industry.

Answer: C

58. In Hamilton, Ontario there are three very popular supermarkets: Superstore, Fortinos, and Sobeys. While Sobeys remains open twenty-four hours a day, Superstore and Fortinos close at 11 pm. Which of the following statements is *true*?
A) Sobeys is a monopoly all day because it produces a service that has no close substitutes.
B) Sobeys has a monopoly at midnight but not during the day.
C) Sobeys can ignore the pricing decisions of the other two supermarkets.
D) Sobeys probably has a higher markup to compensate for its higher cost of production.

Answer: B

59. In 2011, Microsoft filed a complaint with the European Commission accusing Google of taking steps to monopolize the Internet search engine business. Microsoft's primary complaint was that

A) Google is the only Internet search engine available to Windows operating system users.
B) the European Union contracts exclusively with Google for its Internet search engine use.
C) Google has prevented competitors from gaining access to needed content and data to provide search results to consumers.
D) Google owns the Internet advertising companies that pay for ads on search engine sites, and has prohibited ads from being sold to competitors.

Answer: C

60. Which one of the following about a monopoly is *false*?
A) A monopoly could make profits in the long run.
B) A monopoly could break even in the long run.
C) A monopoly must have some kind of government privilege or government imposed barrier to maintain its monopoly.
D) A monopoly status could be temporary.

Answer: C

61. A local or provincial electrical company has a monopoly that is protected by an entry barrier that takes the form of
A) control of a key raw material.
B) network externalities.
C) economies of scale.
D) perfectly inelastic demand curve.

Answer: C

62. A patent or copyright is a barrier to entry based on
A) ownership of a key necessary raw material.
B) large economies of scale as output increases.
C) government action to protect a producer.
D) widespread network externalities.

Answer: C

63. A Canadian government patent lasts

A) forever.
B) 50 years.
C) 20 years.
D) 7 years.

Answer: C

64. Research has shown that most economic profits from selling a prescription drug are eliminated 20 years after the drug is first offered for sale. The main reason for the elimination of profits is

A) after 20 years most people who have taken the drug have passed away or are cured of the illness the drug was intended to treat.
B) firms sell their patent rights to other firms so that they can concentrate on finding drugs to treat new illnesses.
C) the quantity demanded of the drug has increased enough that the demand becomes inelastic and revenue falls.
D) after 20 years patent protection is ended and other firms can produce less expensive generic versions of the drug.

Answer: D

65. Canada Post

A) faces no competition for its mail services.
B) has a monopoly in the provision of general mail delivery.
C) can safely ignore the prices for mail services charges by its rivals such as FedEx and Purolator.
D) is an example of a monopoly that results from the ownership of a key resource: letter carriers.

Answer: B

66. There are several types of barriers to entry that can create a monopoly. Which of the following barriers is the result of government action?

A) network externalities
B) public franchise
C) economies of scale
D) control of a key resource

Answer: B

67. Some economists argue that Microsoft became a monopoly in the market for computer software by developing MS-DOS, an operating system used for the first IBM personal computers. The more people who used MS-DOS-based programs, the greater the usefulness of using a computer with an MS-DOS operating system. The explanation for Microsoft's monopoly is

A) the development of new technology that other firms could not copy.
B) control of a key resource which, in this case, is the MS-DOS operating system.
C) network externalities.
D) patents Microsoft obtained when it developed the MS-DOS operating system.

Answer: C

68. A price maker is

A) a person who actively seeks out the best price for a product that he or she wishes to buy.
B) a firm that has some control over the price of the product it sells.
C) a firm that is able to sell any quantity at the highest possible price.
D) a consumer who participates in an auction where she announces her willingness to pay for a product.

Answer: B

69. Wendell can sell five motor homes per week at a price of $22,000. If he lowers the price of motor homes to $20,000 he will sell six motor homes per week. What is the marginal revenue of the sixth motor home?

A) $10,000
B) $12,000
C) $20,000
D) $22,000

Answer: A

Quantity per Day (cases)	Price per Case	Total Cost
1	$16	$7.00
2	15	9.50
3	14	11.00
4	13	12.00
5	12	14.50
6	11	17.50
7	10	21.00
8	9	25.00
9	8	30.00
10	7	35.50

The government of a small developing country has granted exclusive rights to Linden Enterprises for the production of plastic syringes. Table 13 shows the cost and demand data for this government protected monopolist.

70. ***Refer to Table*** What is the profit-maximizing quantity and price for the monopolist?
A) Quantity = 8 cases, Price = $9
B) Quantity = 7 cases, Price = $10
C) Quantity = 9 cases, Price = $8
D) Quantity = 10 cases, Price = $7
Answer: B
Table

Price	Quantity	Total Revenue	Marginal Revenue	Total Cost	Marginal Cost
$17	3	$51	-----	$56	-----
16	4	64	$13	63	$7
15	5	75	11	71	8
14	6	84	9	80	9
13	7	91	7	90	10
12	8	96	5	101	11

Assume Table gives the monthly demand and costs for subscriptions to basic cable for Shaw, a cable television monopoly in Vancouver.

71. Refer to Table If Shaw wants to maximize its profits, what price (P) should it charge and how many cable subscriptions per month (Q) should it sell?
A) P = $12; Q = 8
B) P = $14; Q = 6
C) P = $16; Q = 4
D) P = $15: Q = 5

Answer: B

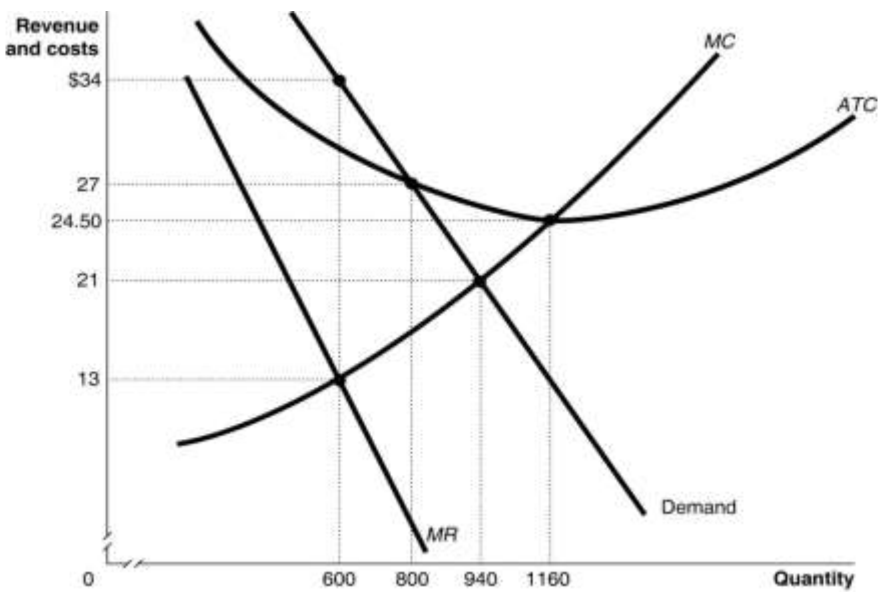
72. If a monopolist's marginal revenue is $35 per unit and its marginal cost is $25, then
A) to maximize profit the firm should increase output.
B) to maximize profit the firm should decrease output.
C) to maximize profit the firm should continue to produce the output it is producing.
D) Not enough information is given to say what the firm should do to maximize profit.

Answer: A

73. A profit maximizing monopoly's price is

A) the same as the price that would prevail if the industry was perfectly competitive.
B) less than the price that would prevail if the industry was perfectly competitive.
C) greater than the price that would prevail if the industry was perfectly competitive.
D) not consistently related to price that would prevail if the market was perfectly competitive.

Answer: C



74. Refer to Figure What is the economically efficient output level?

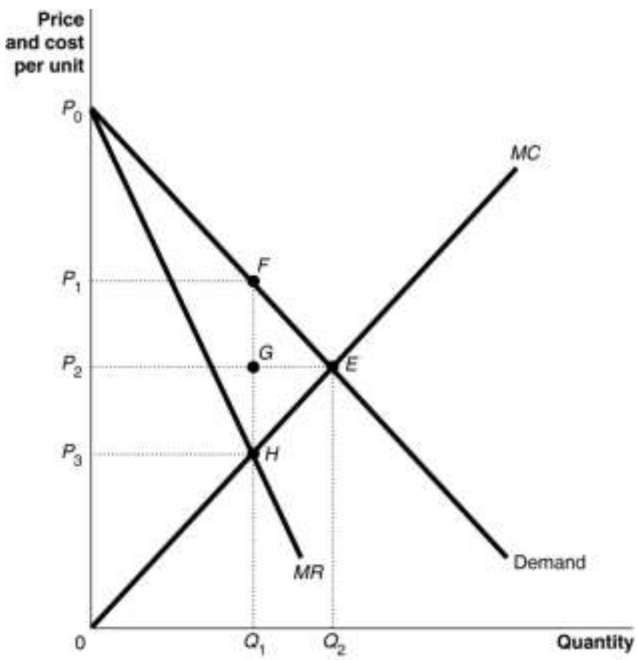
A) 600 units
B) 800 units
C) 940 units
D) 1160 units

Answer: C

75. Relative to a perfectly competitive market, a monopoly results in

A) a gain in producer surplus equal to the gain in consumer surplus.
B) a gain in producer surplus equal to the loss in consumer surplus.
C) a gain in producer surplus less than the loss in consumer surplus.
D) greater economic efficiency.

Answer: C



76***. Refer to Figure .*** Compared to a perfectly competitive market, consumer surplus is lower in a monopoly by an amount equal to the

A) area *FHE*.
B) area *FGE*.
C) area P_1P_2EF.
D) area P_1P_2GF.

Answer: C