

Feedback — FINAL EXAM

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Question 1

When his software company started to lose money, the CEO's solution was to raise prices in the hopes of boosting revenues and profits. However, revenues fell and his strategy bankrupted the company. What microeconomic concept did he fail to apply?

- ☐ Net present value
- ☐ Fiscal Policy
- ☒ Price elasticity
- ☐ Don't Know

Question 2

An analysis of the capital markets will help us understand:

- ☒ How to evaluate the profitability of investments
- ☐ How businesses set wages
- ☐ Don't know
- ☐ How rents are set in real estate markets

Question 3

Suppose you go to the store and see that the price of bread has doubled. Has the demand for bread risen or has bread become more expensive to produce?

- ☐ Demand for has risen
- ☐ Bread had become more expensive to produce
- ☒ Need more information to determine why the price doubled
- ☐ Don't know

Question 4

Suppose you go to a restaurant and have duck orange with wild rice but a second serving doesn't taste nearly as good. This is an example of:

- ☐ Increasing Cardinal Utility
- ☒ Diminishing Marginal Utility
- ☐ Diminishing Ordinal Utility
- ☐ Don't know

Question 5

Which of these are examples in microeconomics of optimizing behavior?

- ☐ 1. Consumers maximize utility subject to a budget constraint
- ☐ 2. Firms maximize profits
- ☒ Both 1 and 2
- ☐ Don't know

Question 6

Total revenue equals:

- ☐ Profits
- ☐ Price divided by quantity

- ☒ Price times quantity
- ☐ Don't know

Question 7

In the short run, adding workers will at some point result in a:

- ☒ A decrease in the marginal product of each additional worker
- ☐ An increase in the marginal product of each additional worker
- ☐ No change in the marginal product of each additional worker
- ☐ Don't know

Question 8

increasingWhich of these industries are characterized by decreasing returns to scale?

- ☐ 1. Railroads
- ☐ 2. Utilities
- ☒ Both 1 and 2
- ☐ Don't know

Question 9

Which market structure is the rarest in a mixed economy like that of the United States?

- ☐ Monopoly
- ☐ Monopolistic Competition
- ☐ Oligopoly
- ☒ Perfect Competition
- ☐ Don't know

Question 10

If any one producer makes a technological breakthrough and is able to produce a product more cheaply, all other firms will be able to use the same technology instantaneously. Which assumption of perfect competition insures this?

- ☐ Free entry and exit
- ☐ Numerous buyers and sellers
- ☒ Perfect information
- ☐ All of the above
- ☐ Don't know

Question 11

Given a market structure of perfect competition, what kind of conduct with respect to pricing can we expect?

- ☐ 1. $P = MC$
- ☐ 2. $MR = MC$
- ☒ Both 1 and 2
- ☐ Don't know

Question 12

An allocation of resources is Pareto Optimal when:

- ☐ No possible reorganization of consumption can make anyone better off without making someone else worse off
- ☒ No possible reorganization of production can make anyone better off without making someone else worse off

- ☐ The economy is at a point inside the PPF
- ☐ All of the above
- ☐ Don't know

Question 13

From the accompanying table, please indicate what the market price will be set at in a monopoly industry.

(1) Quantity q	(2) Price P (\$)	(3) Total revenue TR (\$)	(4) Total cost TC (\$)	(5) Total profit TP (\$)	(6) Marginal revenue MR (\$)	(7) Marginal cost MC (\$)
0	200	0	146	-145	+200	34
1	180	180	175	+5	+180	30
2	160	320	200	+120	+160	27
3	140	420	220	+200	+140	25
4	120	480	250	+230	+120	22
5	100	500	300	+200	+100	20
6	80	480	370	+110	+80	21
7	60	420	460	-40	+60	30
8	40	320	570	-250	+40	40
					+20	50
					0	60
					-20	70
					-40	80
					-60	90
					-80	100
					-100	110

- ☐ P = 140
- ☒ P = 120
- ☐ P = 100
- ☐ P = 80
- ☐ Don't know

Question 14

Which type of industry is most likely to recognize the mutual interdependence of the firms within it?

- ☐ Monopolistic competition

- ☒ Oligopoly
- ☐ Perfect competition
- ☐ Don't know

Question 15

Unlike perfect competition, monopolistic competition is:

- ☐ 1. Allocatively inefficient
- ☐ 2. Productively inefficient
- ☒ Both 1 and 2
- ☐ Don't know

Question 16

The central element of oligopoly:

- ☐ 1. Non-collusive conduct
- ☒ 2. Strategic interaction
- ☐ Both 1 and 2
- ☐ Don't know

Question 17

As the number of firms in an industry shrinks and industry concentration grows:

- ☐ 1. Each firm is more likely to base pricing decisions on how other firms are likely to respond.
- ☐ 2. Each firm is more likely to base output decisions on how other firms are likely to respond.
- ☒ Both 1 and 2
- ☐ Don't know

Question 18

Tacit collusion occurs when:

- ☒ 1. Firms in an industry refrain from competition without explicit agreements
- ☐ 2. Firms in an industry refrain from competition using written contracts
- ☐ Both 1 and 2
- ☐ Don't know

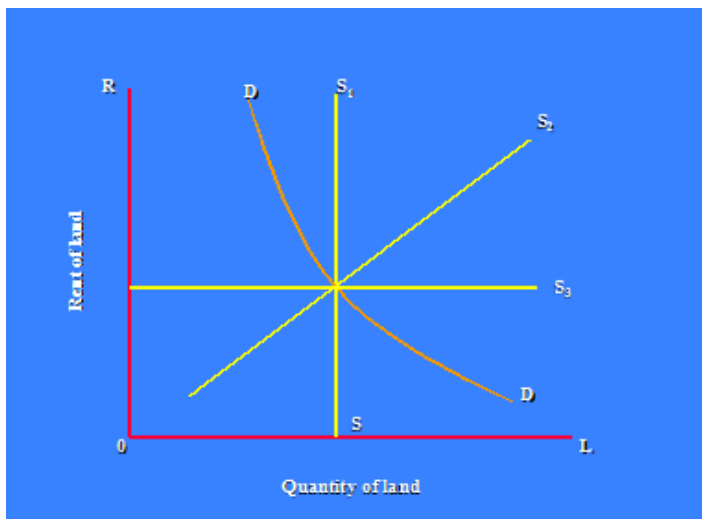
Question 19

Imagine an oligopolistic industry with three firms, A, B, and C, each of which have one-third of the total market. Further assume that each firm sets its price independently, meaning that there is no collusion. If Firm A raises its price, and the firm believes that the other firms won't go along, its perceived demand curve for increasing price will be

- ☒ Very elastic
- ☐ Very inelastic
- ☐ Unit elastic
- ☐ Don't know

Question 20

In the accompanying figure, which would best represent the supply of land?



- ☒ S1
- ☐ S2
- ☐ S3
- ☐ Don't know

Question 21

Criticisms of a Georgist land tax include:

- ☐ 1. A land tax alone would not bring in enough revenues
- ☐ 2. Economic rent cannot be readily disentangled from payments for capital improvements
- ☒ Both 1 and 2
- ☐ Don't know

Question 22

Rent seeking is:

- ☐ 1. The name given to restricting supply to increase the price suppliers receive
- ☐ 2. An attempt to create either ownership rights or institutional structures that favor you
- ☒ Both 1 and 2

☐ Don't know

Question 23

It will be profitable for a firm to hire additional units of a factor resource such as labor up to the point at which:

- ☒ That resource's marginal revenue product is equal to its marginal resource cost
- ☐ That resource's marginal revenue product is less than its marginal resource cost
- ☐ That resource's total revenue product is equal to its total resource cost
- ☐ Don't know

Question 24

According to the Marginal Productivity Theory of Resource Demand, to maximize profits, the firm should hire additional units of a given resource – labor, land, and capital -- so long as each successive unit:

- ☐ Adds more to the firm's average revenues than it does to average costs
- ☒ Adds more to the firm's marginal revenues than it does to average costs
- ☐ Adds more to the firm's total revenues than it does to total costs
- ☐ Don't know

Question 25

The three major determinants of labor supply are

- ☐ Labor force participation
- ☐ Hours worked
- ☐ Rate of immigration

- ☒ All of the above
- ☐ Don't know

Question 26

The theory of loanable funds is based on the assumption that:

- ☒ 1. Businesses supply funds for investment by abstaining from production and accumulating savings over time
- ☐ 2. Households supply funds for investment by abstaining from consumption and accumulating savings over time
- ☐ Both 1 and 2
- ☐ Don't know

Question 27

When depreciation over a period of time exceeds investment over the same period of time:

- ☒ The capital stock will decrease
- ☐ The capital stock will increase
- ☐ The capital stock is unaffected
- ☐ Don't know

Question 28

When an investment will generate an undiscounted sum of money greater than the initial investment outlay, your company should:

- ☐ Always make the investment

- ☐ Never make the investment
- ☒ Make the investment only if the net present value is positive
- ☐ Don't know

Question 29

The demand curve for a public good is the:

- ☐ Horizontal sum of the individual demand curves
- ☐ Horizontal sum of the individual demand curves divided by the supply curves
- ☒ Vertical sum of the individual demand curves
- ☐ Don't know

Question 30

In the presence of a negative externality, a firm will produce:

- ☐ 1. Too few goods and too much pollution from society's point of view
- ☒ 2. Too many goods and too much pollution from society's point of view
- ☐ Neither 1 or 2
- ☐ Don't know

Question 31

The economic rationale for the provision of roads, bridges, lighthouses, and other “public goods” is based on a theory of:

- ☒ Benefit-cost analysis
- ☐ Market failure
- ☐ The time value of money

☐ Don't know

Question 32

Suppose the government imposes new water quality regulations on an industry. What's likely to happen?

- ☐ The demand curve shifts inward and price falls
- ☒ The supply curve shifts inward and price rises
- ☐ Both the supply and demand curves shift outward and price rises
- ☐ Don't know

Question 33

Suppose toxic soil pollution in China significantly reduces the soy bean harvest. Which of these companies is likely to see its profits rise and be the best stock market investment?

- ☐ A animal feed company that relies on soy beans to prepare its feeds
- ☒ A shipping company that transports soy beans from Brazil to China
- ☐ A soy sauce company
- ☐ Don't know

Question 34

Leslie is the CEO of a company facing a revenue shortfall and she decides to raise prices in order to make up for that shortfall. To her chagrin, revenues fall further. Demand for Leslie's product is:

- ☒ Elastic
- ☐ Inelastic
- ☐ Unit elastic

☐ Don't know

Question 35

Which has a lower elasticity? Coffee or Starbucks coffee?

- ☒ Coffee
- ☐ Starbucks coffee
- ☐ Elasticity is the same
- ☐ Don't know

Question 36

The CEO of a company engineers a merger with its biggest rival and is surprised that over time, the merger fails to reduce costs. What is the industry likely characterized by?

- ☐ Constant returns to scale over a broad spectrum of output
- ☒ Decreasing returns to scale over a broad spectrum of output
- ☐ Increasing returns to scale over a broad spectrum of output
- ☐ Don't know

Question 37

You work in an industry that is characterized by brand proliferation. You likely work in a:

- ☐ Monopolistic industry
- ☒ Monopolistically competitive industry
- ☐ Perfectly competitive industry
- ☐ Don't know

Question 38

Given a market structure of perfect competition, what kind of conduct with respect to pricing can we expect?

- ☐ 1. $P = MC$
- ☐ 2. $MR = MC$
- ☒ Both 1 and 2
- ☐ Don't know

Question 39

Your company is losing money and you are trying to decide whether or not you should shut down your production. Your best “shutdown point” is when price falls below the level where:

- ☐ Revenues just cover average variable costs
- ☒ Revenues just cover total costs
- ☐ Revenues just cover variable costs
- ☐ Don't know

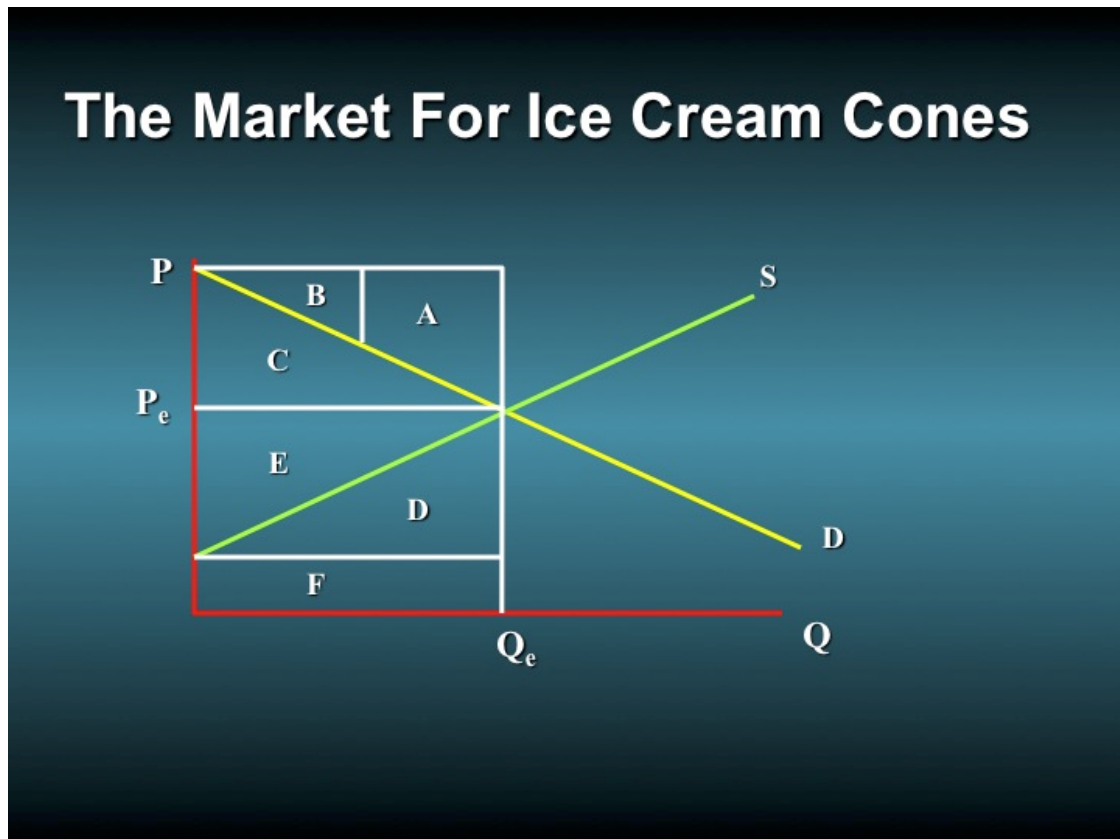
Question 40

Suppose you go into business and you have to forego a \$60,000 a year, after-tax salary and a \$20,000 housing allowance. If you wind up at the end of the year with accounting profits of \$80,000, what are your economic profits?

- ☐ \$20,000
- ☒ \$0
- ☐ -\$20,000
- ☐ Don't know

Question 41

In the accompanying figure, at the given perfectly competitive equilibrium, what is the deadweight loss?



- ☐ Don't know
- ☐ ABC
- ☒ Zero
- ☐ DEF

Question 42

In the monopoly outcome, relative to the perfect competition outcome:

- ☐ Price is lower, quantity is lower
- ☒ Price is higher, quantity is higher

- ☒ Price is higher, quantity is lower
- ☐ Don't know

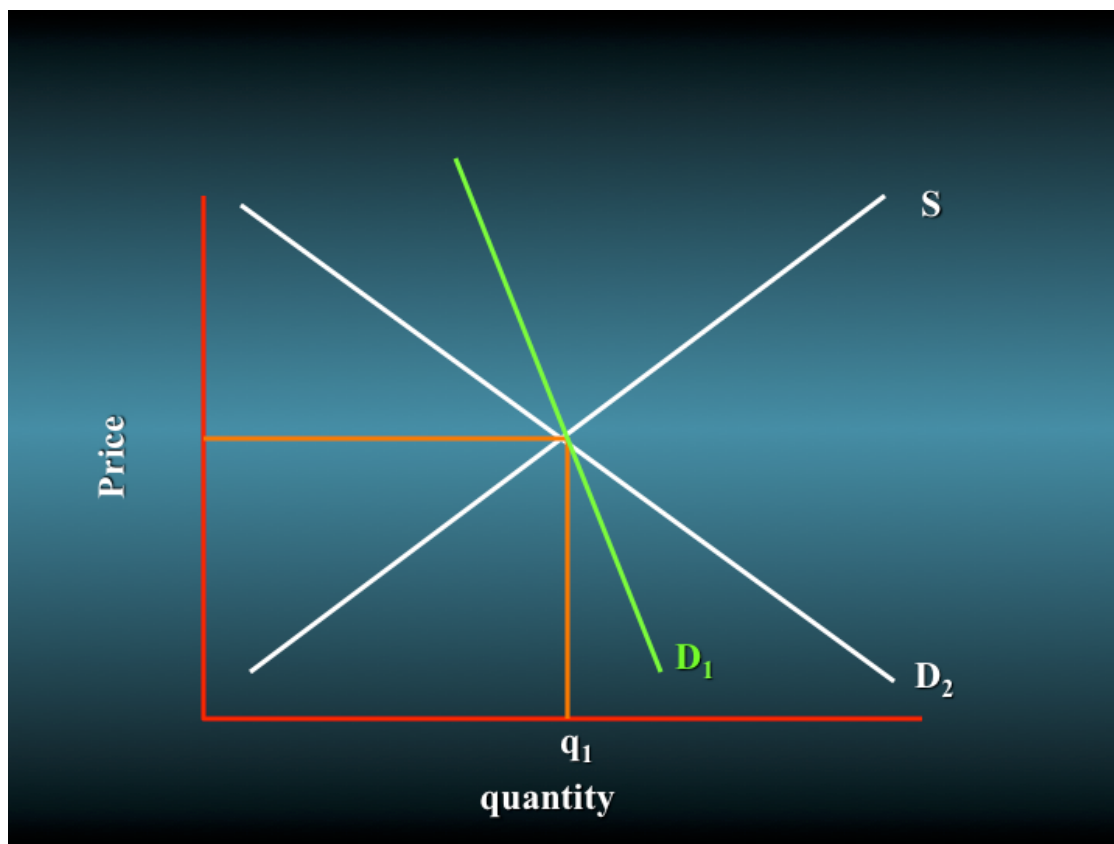
Question 43

Which type of efficiency might monopolies enjoy to justify their negative effects?

- ☐ Allocative efficiency
- ☒ Dynamic efficiency
- ☐ X-efficiency
- ☐ Don't know

Question 44

Which demand curve is that of a differentiated product relative to an undifferentiated product in the accompanying figure?



- ☒ D1
- ☐ D2
- ☐ S
- ☐ Don't know

Question 45

Firms in an oligopolistic industry that recognize their mutual interdependence are:

- ☐ Less likely to collude
- ☒ More likely to collude
- ☐ Never collude
- ☐ Don't know

Question 46

Prices in small convenience stores are generally higher than in supermarkets -- yet people still shop in such stores. What accounts for this?

- ☐ Advertising
- ☐ Choice
- ☒ Location
- ☐ Don't know

Question 47

Suppose the firm ends its fiscal year with a capital stock of \$2,000,000. Over the course of the current year, the firm invests \$200,000 in a new plant and equipment. At the same time, it incurs depreciation of \$250,000.

- ☒ The capital stock has decreased
- ☐ The capital stock has increased
- ☐ The capital stock is unaffected
- ☐ Don't know

Question 48

Relative to taxable bonds with similar risks, tax-exempt state and municipal bonds typically offer:

- ☐ Higher interest rates
- ☒ Lower interest rates
- ☐ The same interest rate
- ☐ Don't know

Question 49

Your government votes to impose a tax on the air pollution emitted by large, coal-fired power plants in your country. Which economic concept has the government likely endorsed?

- ☐ Coase Theorem
- ☒ Pigouvian view of internalizing externalities
- ☐ Adam's Smith's "invisible hand"
- ☐ Don't know

