

Econ 201 Spring 2015 Final Exam

Version #1

1. Consider a market that is in equilibrium. If it experiences both an increase in demand and a decrease in supply, what can be said of the new equilibrium?

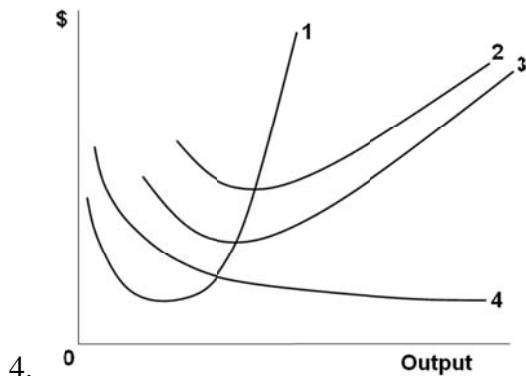
- A. The equilibrium price and quantity will both rise.
- B. The equilibrium quantity will definitely rise, while the equilibrium price cannot be predicted.
- C. The equilibrium price will definitely rise, while the equilibrium quantity cannot be predicted.
- D. The equilibrium price and quantity will both fall.

2. Marginal cost:

- A. declines continuously as output increases.
- B. is the difference between total cost and total variable cost.
- C. equals both average variable cost and average total cost at their respective minimums.
- D. rises for a time, but then begins to decline when diminishing returns set in.

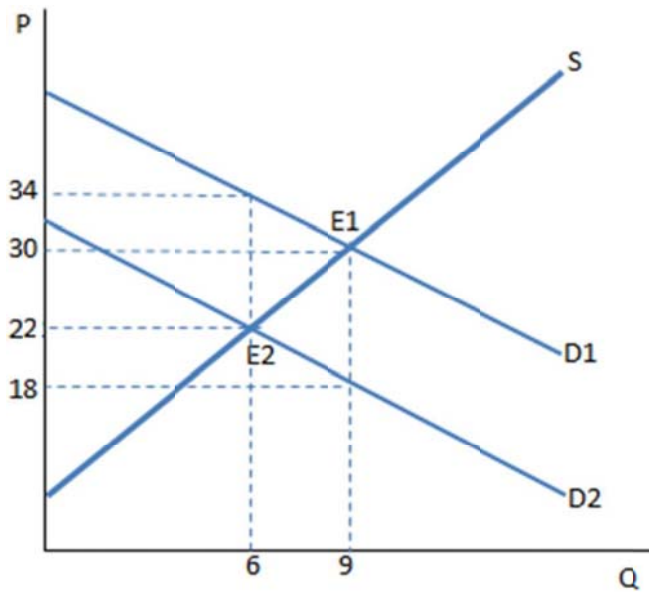
3. A competitive firm will maximize profits at that output at which:

- A. price exceeds average total cost by the largest amount.
- B. total revenue and total cost are equal.
- C. total revenue exceeds total cost by the greatest amount.
- D. the difference between marginal revenue and price is at a maximum.



In the above figure, curves 1, 2, 3, and 4 represent the:

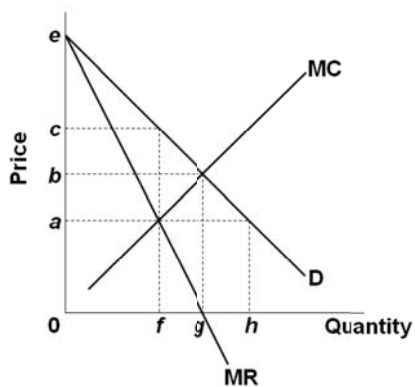
- A. ATC, AVC, AFC, and MC curves respectively.
- B. ATC, MC, AFC, and AVC curves respectively.
- C. MC, AFC, AVC, and ATC curves respectively.
- D. MC, ATC, AVC, and AFC curves respectively.



5.

The graph shown demonstrates a tax on buyers. Who bears the greater tax incidence?

- A. The buyer
- B. The seller
- C. The government
- D. The incidence is equally shared between buyer and seller.



6. Refer to the above diagram for a pure monopolist. Monopoly price will be:

- A. *e*.
- B. *b*.
- C. *a*.
- D. *c*.

7. Suppose the market for sugar is in equilibrium at \$3 per kilogram. This means:

- A. all remaining consumers value sugar at more than \$3.
- B. the cost of the last kilogram of sugar is less than \$3.
- C. all remaining producers will require more than \$3 to produce sugar.
- D. the benefit of the last kilogram of sugar exceeds \$3.
- E. too many trades have occurred.

8. The law of diminishing returns indicates that:

- A. the demand for goods produced by perfectly competitive industries is downsloping.
- B. beyond some point the extra utility derived from additional units of a product will yield the consumer smaller and smaller extra amounts of satisfaction.
- C. as extra units of a variable resource are added to a fixed resource, marginal product will decline beyond some point.
- D. because of economies and diseconomies of scale a competitive firm's long-run average total cost curve will be U-shaped.

9. The effect of a Pigovian tax on a market is:

- A. increased price and reduced quantity to the efficient level.
- B. decreased price and increased quantity to the efficient level.
- C. increased price and quantity to the efficient level.
- D. decreased price and quantity to the efficient level.

10. If a perfectly competitive firm shuts down in the short run:

- A. it will realize a loss equal to its total variable costs.
- B. it will realize a loss equal to its total fixed costs.
- C. its loss will be zero.
- D. it will realize a loss equal to its total costs.

11. The extra benefit associated with producing or consuming the next unit is called the:

- A. spillover.
- B. economic benefit.
- C. revenue product.
- D. marginal benefit.

12. The fact that a perfectly competitive firm's total revenue curve is linear and upsloping to the right implies that:

- A. product price decreases as output increases.
- B. marginal revenue declines as more output is produced.
- C. product price increases as output increases.
- D. product price is constant at all levels of output.

13. The market for child care services is perfectly competitive and has the usual upward-sloping supply and downward-sloping demand curves. In order to help families with young children, the government sets a price ceiling below the market equilibrium price. The most likely outcome of this policy is:

- A. that it definitely will reduce producer surplus.
- B. that it definitely will reduce consumer surplus.
- C. that it will definitely benefit all the consumers.
- D. that it definitely will reduce both producer and consumer surplus.
- E. that it will definitely be most efficient.

14. Which of the following is *not* characteristic of monopolistic competition?

- A. relatively large numbers of sellers
- B. production at minimum ATC in the long-run
- C. relatively easy entry to the industry
- D. product differentiation

15. The demand curve in a perfectly competitive industry is _____, while the demand curve to a single firm in that industry is _____.

- A. perfectly elastic, downsloping
- B. downsloping, perfectly inelastic
- C. downsloping, perfectly elastic
- D. perfectly inelastic, perfectly elastic

16. A firm finds that at its $MR = MC$ output, its $TC = \$1,000$, $TVC = \$800$, $TFC = \$200$, and total revenue is \$900. This firm should:

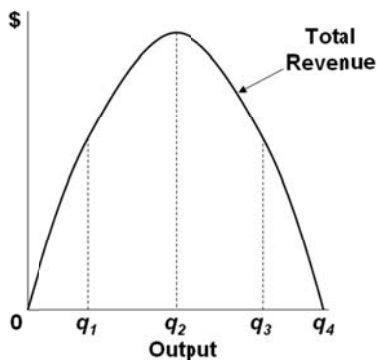
- A. shut down in the short run.
- B. produce because the resulting loss is less than its TFC.
- C. produce because it will realize an economic profit.
- D. liquidate its assets and go out of business.

17. An optimal corrective tax levied on polluters will:

- A. not generate enough revenue to pay for the cost of the damage resulting from pollution that occurs at the efficient output of the good.
- B. decrease pollution to zero.
- C. be equal to the marginal cost of their actions imposed on third parties.
- D. increase the supply of polluting goods.

18. An external cost of an activity is one that is:

- A. borne only by those directly involved.
- B. present only if the activity yields pollution.
- C. transferred from consumers to producers.
- D. borne by those not directly involved.



19. Refer to the above diagram for a nondiscriminating monopolist. Demand is elastic:

- A. only for outputs greater than q_4 .
- B. for all levels of output greater than q_2 .
- C. in the q_1q_3 output range.
- D. for all levels of output less than q_2 .

20. In the long-run, the price charged by a monopolistically competitive firm seeking to maximize profit will:

- A. exceed both MC and ATC.
- B. exceed ATC, but equal MC.
- C. be less than both MC and ATC.
- D. exceed MC, but equal ATC.

21. Which of the following definitions is *correct*?

- A. Economic profit - accounting profit = explicit costs.
- B. Economic profit = accounting profit - implicit costs.
- C. Accounting profit + economic profit = normal profit.
- D. Economic profit - implicit costs = accounting profits.

22. Consider the market for ride-on lawn mowers and the recent increases in the price of oil. The recent increase in the price of oil makes it more expensive to manufacture ride-on lawn mowers. An increase in the price of oil also makes it more expensive to run a ride-on mower. If the price of oil increases, the demand for ride-on mowers will _____ and the supply will _____.

- A. decrease; increase
- B. increase; increase
- C. increase; decrease
- D. decrease; decrease

23. The monopolistically competitive seller's demand curve will become more elastic the:

- A. greater the degree of product differentiation.
- B. smaller the number of competitors.
- C. larger the number of competitors.
- D. more significant the barriers to entering the industry.

24. The price of pizza falls relative to the price of spaghetti, and so people buy more pizza instead of spaghetti. This is an example of responding to:

- A. disincentives.
- B. marginal science.
- C. sunk benefit.
- D. incentives.

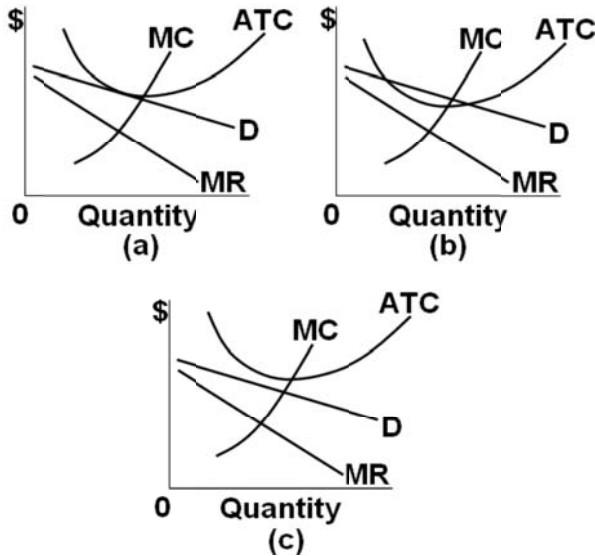
25. In the short run the individual competitive firm's supply curve is that segment of the:

- A. average variable cost curve lying below the marginal cost curve.
- B. marginal cost curve lying between the average total cost and average variable cost curves.
- C. marginal revenue curve lying below the demand curve.
- D. marginal cost curve lying above the average variable cost curve.

26. If society were to experience an increase in its available resources:

- A. its production possibilities frontier would not move, but society could change its production choice.
- B. its production possibilities frontier would become convex.
- C. its production possibilities frontier would shift out.
- D. its production possibilities frontier would shift in.

27. The short-run supply curve for a perfectly competitive industry can be found by:
- multiplying the AVC curve of the representative firm by the number of firms in the industry.
 - summing horizontally the segments of the MC curves lying above the AVC curve for all firms.
 - adding horizontally the immediate market period supply curves of each firm.
 - adding horizontally the AVC curves of all firms.



28. Refer to the above diagrams, which pertain to monopolistically competitive firms. Short-run equilibrium entailing economic loss is shown by:

- diagram *c* only.
- both diagrams *a* and *c*.
- diagram *b* only.
- diagram *a* only.

29. In sequential games, an especially important part of strategic behavior is to:

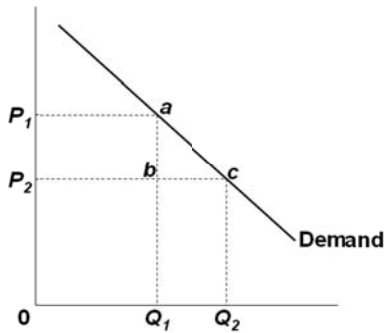
- "think forward, act backward."
- "think backward, work forward."
- "think forward, work backward."
- "think backward, act forward."

30. A competitive firm in the short run can determine the profit-maximizing (or loss-minimizing) output by equating:

- price and marginal revenue.
- price and average total cost.
- price and average fixed cost.
- marginal revenue and marginal cost.

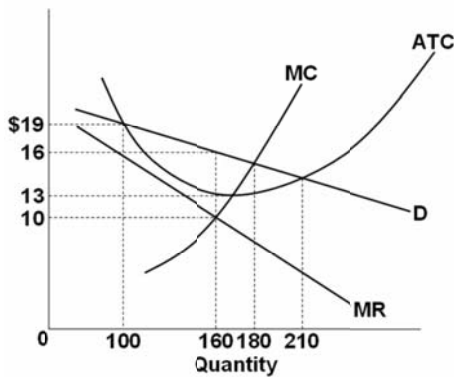
31. Which of the following is a short-run adjustment?

- A. Six new firms enter the plastics industry.
- B. BMW constructs a new assembly plant in South Carolina.
- C. A local bakery hires two additional bakers.
- D. The number of farms in the United States declines by 5 percent.



32. If the firm in the above diagram lowers price from P_1 to P_2 , it will:

- A. lose P_1P_2ba in revenue from the price cut but increase revenue by Q_1bcQ_2 from the increase in sales.
- B. lose P_1P_2ca in revenue from the price cut but increase revenue by Q_1acQ_2 from the increase in sales.
- C. incur an increase in total revenue because it is operating on the inelastic segment of the demand curve.
- D. incur a decline in total revenue because it is operating on the elastic segment of the demand curve.

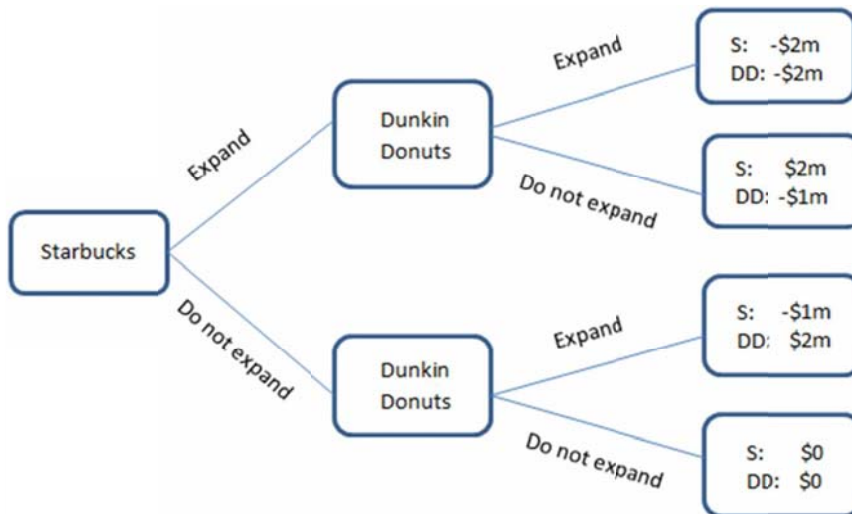


33. Refer to the above diagram for a monopolistically competitive firm in short-run equilibrium. This firm will realize an economic:

- A. profit of \$480.
- B. profit of \$280.
- C. profit of \$600.
- D. loss of \$320.

34. Which of the following statements is *correct*?

- A. Marginal cost measures the cost per unit of output associated with any level of production.
- B. When marginal product rises, marginal cost must also rise.
- C. Marginal cost is the price or cost of an extra variable input (for example, an additional worker) divided by its marginal product.
- D. Average total cost is the difference between average variable cost and average fixed cost.



35.

This figure displays the choices being made by two coffee shops: Starbucks and Dunkin Donuts. Both companies are trying to decide whether or not to expand in an area. The area can handle only one of them expanding, and whoever expands will cause the other to lose some business. If they both expand, the market will be saturated, and neither company will do well. The payoffs are the additional profits (or losses) they will earn.

The outcome of the game in the figure shown predicts that Starbucks will earn profits of:

- A. -\$1 million.
- B. \$0 million.
- C. -\$2 million.
- D. \$2 million.

36. Average fixed cost:

- A. may be found for any output by adding average variable cost and average total cost.
- B. equals marginal cost when average total cost is at its minimum.
- C. graphs as a U-shaped curve.
- D. declines continually as output increases.

37. A country's newest ruler has decided the country will become self-sufficient and ceases trade with the rest of the world. The likely outcome of this action will be that the country's citizen's will be:

- A. better off than before only if they have the absolute advantage in the production of most goods they consume.
- B. better off than before if they possess an absolute advantage in the production of a good.
- C. forced to consume less than before if they possessed a comparative advantage in the production of a good.
- D. better off than before only if they have the comparative advantage in the goods they consume.

38. When total product is increasing at a decreasing rate, marginal product is:

- A. negative.
- B. positive and increasing.
- C. positive and decreasing.
- D. constant.

39. An industry comprised of 40 firms, none of which has more than 3 percent of the total market for a differentiated product is an example of:

- A. perfect competition.
- B. oligopoly.
- C. monopolistic competition.
- D. pure monopoly.

40. The government imposing a minimum wage is an example of an attempt to:

- A. discourage the consumption of inferior goods.
- B. redistribute surplus in a market.
- C. correct a market failure.
- D. encourage the consumption of inferior goods.

41. If a perfectly competitive firm is producing at the $MR = MC$ output level and earning an economic profit, then:

- A. the selling price for this firm is above the market equilibrium price.
- B. there must be price fixing by the industry's firms.
- C. new firms will enter this market.
- D. some existing firms in this market will leave.

42. Which of the following statements is *correct*?

- A. The long-run supply curve for a perfectly competitive industry will be less elastic than the industry's short-run supply curve.
- B. The long-run supply curve for a perfectly competitive decreasing-cost industry will be upsloping.
- C. The long-run supply curve for a perfectly competitive increasing-cost industry will be upsloping.
- D. The long-run supply curve for a perfectly competitive increasing-cost industry will be perfectly elastic.

43. The relationship between the marginal cost and the average total cost schedule is such that:

- A. if MC is declining, ATC may be either declining or rising.
- B. the behavior of one schedule does not affect the other.
- C. if MC is declining, ATC must also be declining.
- D. if ATC exceeds MC, MC must be rising.

44. A rare coin dealer is likely to have a _____ price elasticity of supply than a coffee shop due to _____.

- A. less elastic; the availability of inputs
- B. more elastic; a shorter adjustment time
- C. more elastic; a longer adjustment time
- D. more elastic; the availability of inputs

45. If a good has an income elasticity of 1.83, which of the following can be said about it?

- A. None of these statements is true.
- B. It is an inferior good, and a necessity.
- C. It is a normal good, and a necessity.
- D. The good probably has a lot of close substitutes available.

46. The practice of charging customers different prices for the same good is called:

- A. price discrimination.
- B. price marking.
- C. group discounting.
- D. customer discrimination.

47. What is the root cause of excess capacity in a monopolistically competitive industry?

- A. Inefficient producers.
- B. Product differentiation.
- C. Free entry.
- D. Rising marginal cost.

		Beta's Price Policy	
		High	Low
Alpha's Price Policy	High	A \$20 \$20	B \$30 \$10
	Low	C \$10 \$30	D \$15 \$15

48. Refer to the above diagram where the numerical data show profits in millions of dollars. Beta's profits are shown in the northeast corner and Alpha's profits in the southwest corner of each cell. If Alpha and Beta engage in collusion, the outcome of the game will be at cell:

- A. Cell A.
- B. Cell B.
- C. Cell D.
- D. Cell C.

49. According to class lecture, the dynamic view of monopoly is best described by which of the following?

- A. Positive economic profits may contribute to future consumer surplus.
- B. Deadweight losses from monopoly matter less over the long run than they do in the short run.
- C. Monopoly industries are the most dynamic of the 4 main market structures.
- D. Deadweight losses from monopoly matter more over the long run than they do in the short run

50. Because the class was able to successfully create the logic chain for a firm's short run cost curves, everyone gets a free question. Choose Answer A to receive credit.

- A. This is the correct answer
- B. This is NOT the correct answer
- C. This is NOT the correct answer
- D. This is NOT the correct answer

Econ 201 Spring 2015 Final Exam **Key**

Version #1

1. C
2. C
3. C
4. D
5. B
6. D
7. C
8. C
9. A
10. B
11. D
12. D
13. A
14. B
15. C
16. B
17. C
18. D
19. D
20. D
21. B
22. D
23. C
24. D
25. D
26. C
27. B
28. A
29. C

- 30. D
- 31. C
- 32. A
- 33. A
- 34. C
- 35. D
- 36. D
- 37. C
- 38. C
- 39. C
- 40. B
- 41. C
- 42. C
- 43. C
- 44. A
- 45. A
- 46. A
- 47. (p. 227) B
- 48. A
- 49. A
- 50. A

