Econ 201 Spring 2016 Final Exam
Version #1

1. Average fixed costs:
A. are a constant, regardless of quantity of output.
B. are a vertical line.
C. always trend downward as output increases.
D. always trend upward as output increases.

2. Fixed costs are:
A. costs that are negotiated to stay the same throughout the life of a contract.
B. inputs costs that stay the same price per unit.
C. costs that don't depend on the quantity of output produced.
D. costs that depend on the quantity of output produced.

3. Refer to the diagram above. Suppose that a price ceiling is imposed at a price of $4. The change in total economic surplus due to the price ceiling is
A. $37.33.
B. $23.34.
C. $34.68.
D. $21.34.
E. $18.68.

4. In the short run, monopolistically competitive firms behave like _____, but in the long run, the outcome is similar to that of _____.
A. monopolies; perfectly competitive firms
B. oligopolies; perfectly competitive firms
C. monopolies; oligopolies
D. perfectly competitive firms; monopolies

5. After correcting an externality, the equilibrium price and quantity both rose. The externality must have been a(n)
A. negative externality.
B. external cost.
C. prisoner's dilemma.
D. positive externality.
E. positional externality.

6. If a price ceiling is imposed on a rental market for apartments, the more elastic the supply of apartments, the
A. smaller the loss in total economic surplus.
B. larger the loss in total economic surplus.
C. larger the gain in total economic surplus.
D. greater the redistributed surplus.
E. smaller the gain in total economic surplus.

7. If an unregulated activity produces a negative externality, one can infer that the
A. equilibrium quantity is less than the socially optimal quantity.
B. demand for the activity is greater than the socially optimal demand.
C. equilibrium quantity is greater than the socially optimal quantity.
D. equilibrium price is greater than the socially optimal price.
E. supply of the activity is less than the socially optimal supply.

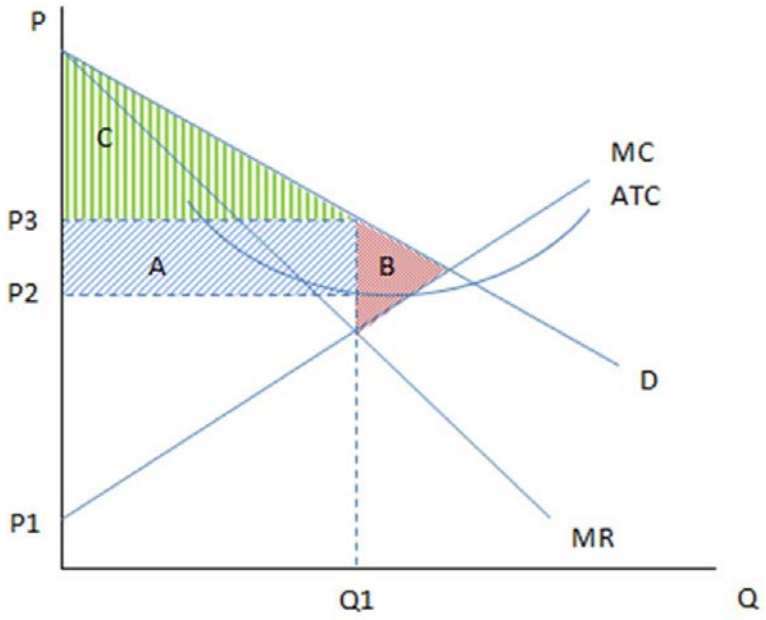
8. To maximize profit, a price taker should produce the output level where
A. total cost is the lowest.
B. marginal cost is the lowest.
C. variable cost is the lowest.
D. total revenue is the highest.
E. price equals marginal cost.

9. A natural monopoly is a market in which a single firm:
A. is protected from competition through government legislation.
B. can produce, at a lower cost than multiple firms, the entire quantity of output demanded.
C. owns a key resource or input into the production of the good.
D. gains market share over time through aggressive tactics.

10. Suppose that both the equilibrium price and quantity of tomato sauce fall. The most consistent explanation for these observations is:
A. an increase in the supply of tomato sauce with no change in demand.
B. a decrease in demand for tomato sauce with no change in supply.
C. an increase in demand for tomato sauce with no change in supply.
D. an decrease in the supply of tomato sauce with no change in demand.
E. an increase in demand for tomato sauce and a decrease in the supply of tomato sauce.

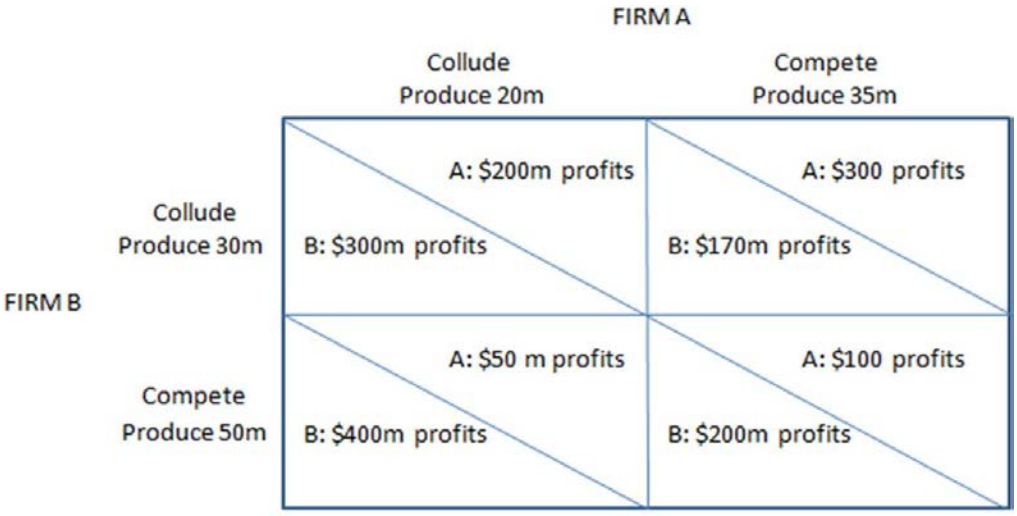
11. An outcome in which all players choose the best strategy they can, given the choices of all other players, is called:
A. the prisoner's dilemma.
B. collusion.
C. a dominant strategy.
D. a Nash equilibrium.

12. These are the cost and revenue curves associated with a monopolistically competitive firm.



According to the graph shown, area A represents:
A. consumer surplus.
B. profits earned in the long run.
C. profits earned in the short run.
D. profits earned in the short and long run.

13. This prisoner's dilemma game shows the payoffs associated with two firms, A and B, in an oligopoly and their choices to either collude with one another or not.



According to the matrix shown, the outcome of the "game" will be:
A. Firm A will compete and Firm B will collude.
B. both firms will collude and act like a joint monopolist.
C. Firm B will compete and Firm A will collude.
D. both firms will compete.

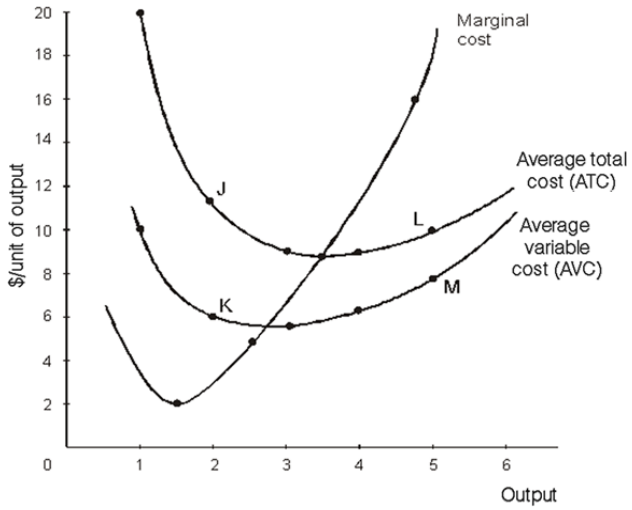
14. For a monopolist, the quantity effect:
A. is the decrease in revenues from selling a greater quantity at a lower price.
B. is always outweighed by the price effect.
C. always outweighs the price effect.
D. is the increase in revenues from selling a greater quantity at a lower price.

15. Oligopoly describes a market with:
A. one seller.
B. only a few sellers.
C. few or many sellers, but only one buyer.
D. many sellers.

16. Diminishing marginal returns often arise because
A. the additional worker hired must be trained for a long period of time to use the machines and tools.
B. the existing plant is technologically behind the industrial average.
C. the existing plant size and workplace is much too large.
D. the additional worker hired is lazier than the existing workers.
E. the additional worker hired must share the same machines and workspace.

17. Price discrimination:
A. can be a successful strategy for any firm in a competitive market
B. can benefit consumers with a lower willingness to pay when compared to other consumers in the market
C. is more successful if resale of the product is possible from one consumer to another.
D. tends to decrease the profits of the firm.

18. A linear demand curve:
A. has a changing slope, but constant elasticity.
B. has a constant slope, but changing elasticity.
C. has a measured slope that is the same as the measured elasticity.
D. has a constant slope and a constant elasticity, but they need not equal one another.



19. Refer to the graph above. This firm uses labor and a fixed quantity of machines. Between 2 and 5 units of output, we know that

A. the marginal product of labor must be constant.
B. the marginal product of labor must be decreasing.
C. the marginal product of labor must be increasing.
D. the figure does not relate to the marginal product of labor.
E. the marginal product of labor must be higher than the wage rate.

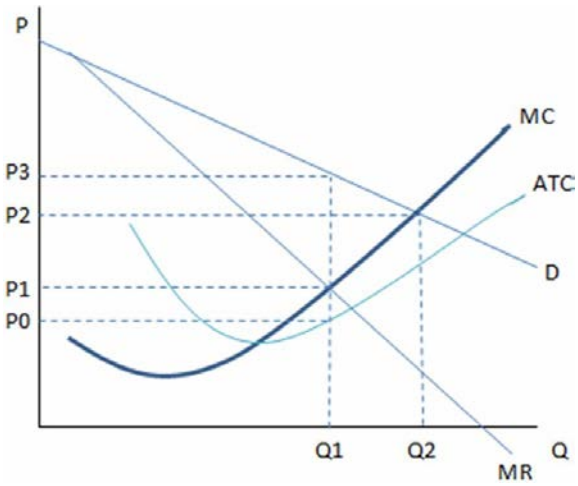
20. Refer to the graph at the top of the page. The reason why AVC is approaching ATC after the fifth unit of output is because

A. average fixed cost is approaching zero as more output is produced.
B. production is approaching the long run.
C. diminishing returns have started to occur.
D. there are not enough tools and machines for all of the workers.
E. total fixed cost is approaching zero as more output is produced.

21. Suppose that a market is initially in equilibrium, then a per-unit tax is imposed on sellers. The more elastic demand is, the _____ the burden of the tax borne by _____.

A. smaller; consumer and producers
B. larger; consumers and producers
C. smaller; producers
D. larger; consumers
E. larger; producers

22. This graph shows the cost and revenue curves faced by a monopoly.



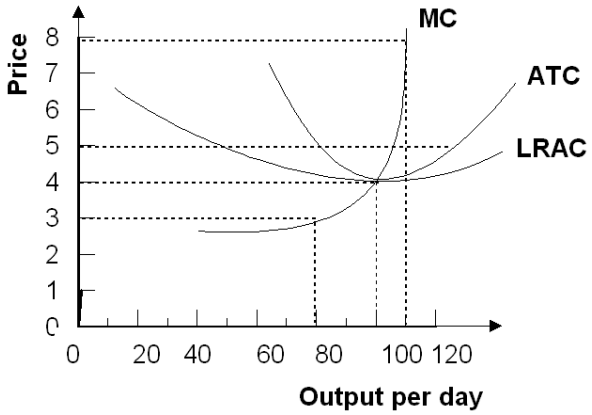
According to the graph shown, the profit being earned by this monopolist is:
A. (P3 - P0) x Q1
B. (P3 - P0)/Q1
C. (P3 - P1) x Q1
D. (P1 - P0) x Q1

23. When a good is normal, an increase in income causes the
A. prices of complementary goods to fall.
B. supply curve of the good to shift to the right.
C. demand curve of the good to shift to the left.
D. demand curve of the good to shift to the right.

24. Suppose that an accounting firm with 10 employees hires another accountant. By doing so, it goes from serving 30 customers each week to serving 32 customers each week. What is the marginal product of labor for the new accountant?
A. 32
B. 2
C. 10
D. 62

25. Monopolistic competition describes a market with:
A. many firms that sell goods and services that are similar, but slightly different.
B. few firms that sell goods and services that are similar, but slightly different.
C. many firms that sell goods and services that are standardized.
D. few firms that sell goods and services that are standardized.

26. The welfare loss associated with the outcome in a competitive oligopoly is:
A. the same as that of a monopoly.
B. bigger than that of a monopoly.
C. the same as that of colluding oligopolists.
D. smaller than that of a monopoly.



27. Refer to the graph above. If the price of the product is $4,
A. the industry will be in a long-run equilibrium.
B. firms will exit the industry.
C. the firm will incur an economic profit of approximately $160 per day.
D. new firms will enter the industry.
E. the firm will incur an economic loss of approximately $160 per day.

28. A firm that is the sole producer of a good or service with no close substitutes is called a:
A. monopolistically competitive firm.
B. perfectly competitive firm.
C. monopolist.
D. oligopolist.

29. In a perfectly competitive industry, over the long run,
A. economic profits tend to persist.
B. the number of firms in an industry shrinks.
C. economic profits and losses are driven towards zero by entry and exit.
D. economic losses tend to persist.
E. the number of firms in an industry grows.

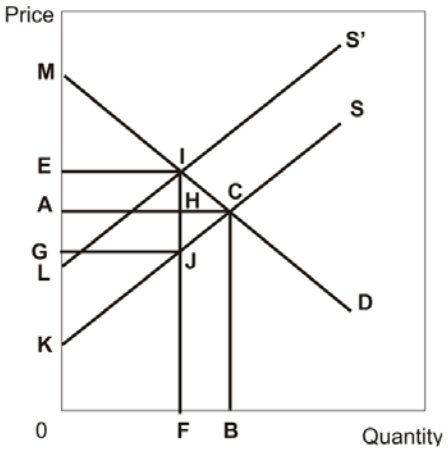
30. Suppose that all firms in a perfectly competitive industry are experiencing economic losses to varying degrees. One can predict that
A. market demand will increase.
B. the market price will rise.
C. the market price will decrease.
D. market supply will increase.
E. market demand will decrease.

31. The monopolist and the perfectly competitive firm both choose to maximize profits by choosing the level of output where:
A. the two types of firms make their profit-maximizing decision differently.
B. MC equals MR and price is equal to minimum ATC.
C. MC equals AR and price is equal to minimum ATC.
D. MC equals MR and price is equal to AR.

32. Assume that all firms in a particular perfectly competitive industry are earning economic profits. This will cause firms to _____ the industry, which will continue until _____.
A. exit; economic losses occur
B. enter; economic profits are zero
C. enter; economic profits are negative
D. exit; economic profits are zero
E. enter; accounting profits are zero

33. Total revenue can be defined as:
A. the amount that a firm spends on all inputs that go into making a good or service.
B. the sum of total costs and total sales.
C. the amount that a firm receives from the sale of goods and services.
D. the amount that an individual can spend on disposable goods and services.

34. All the following conditions will cause an outward shift of the production possibilities frontier except
A. existing factors of production become more productive.
B. the quantity of the factors of production increases.
C. an improvement in the overall technology of production.
D. previously unemployed factors of production are put back to work.



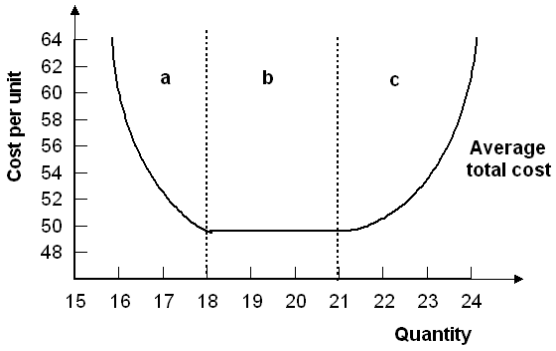
35. Refer to the diagram above. In the diagram, D represents the original demand curve, S represents the original supply curve, and S' represents the supply curve once a per-unit tax is imposed. The difference between the total benefit and the total cost of the trades that do not occur after the tax is the _____ and it is equal to _____.
A. deadweight loss; ½(JH)(HC)
B. reduced producer surplus; (AG)(GJ) + ½ (JH)(HC)
C. deadweight loss; ½(IH)(HC)
D. reduced consumer surplus; (EA)(AH)+ ½(IH)(HC)
E. deadweight loss; ½(IH)(HC) + ½(JH)(HC)

36. This table represents the revenues faced by a monopolist.

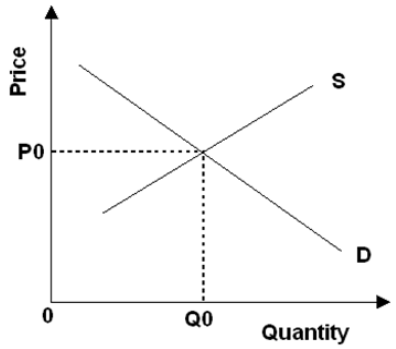
Price	Quantity Sold	Total Revenue	Average Revenue	Marginal Revenue
$1,000	1	$1,000		
$900	2	$1,800		
$800	3	$2,400		
$700	4	$2,800		
$600	5	$3,000		
$500	6	$3,000		
$400	7	$2,800		

Using the information in the table shown, the marginal revenue for the 3rd unit is:
A. $500
B. $800
C. $600
D. $100

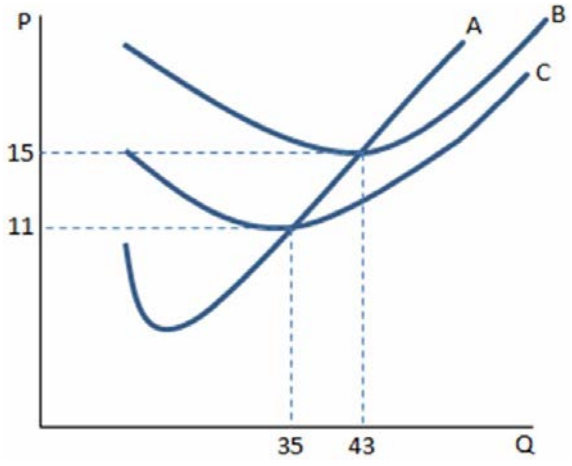
37. Bob got laid off six months ago. He used to go to the movies once a month, but he's only been twice since losing his job. This type of behavior can be measured using:
A. the price elasticity of demand.
B. the income elasticity of demand.
C. the cross-price elasticity.
D. the price elasticity of supply.



38. Refer to the diagram above. The firm is experiencing diseconomies of scale when output is
A. between 18 and 21 units.
B. greater than 21 units.
C. less than 21 units.
D. less than 18 units.
E. greater than 18 units.



39. Refer to the diagram above. If a positive externality exists in this market, the marginal social benefit from consuming this good at the competitive equilibrium output level is
A. either greater than or less than P0, depending on the elasticity of supply.
B. greater than P0.
C. either equal to or less than P0, depending on the elasticity of demand.
D. less than P0.
E. equal to P0.



40.
If a firm in a perfectly competitive market faces the cost curves in the graph shown and observes a market price of $13, the firm:
A. cannot make positive profits and should shut down in the short run.
B. can make positive profits by producing more than 35 units.
C. can make positive profits by producing where MC = MR.
D. should continue to operate in the short run, but plan to exit in the long run.

		A	
		X	Z
B	X	$100 A $75 B	$50 A $400 B
	Z	$200 A $50 B	$150 A $300 B

41. Refer to the payoff matrix above. The table shows the payoff matrix for players A and B to strategies X and Z. Player A finds that strategy X is _____ and player B finds that strategy X is _____.
A. dominated; neither dominant nor dominated
B. dominated; dominant
C. dominant; dominant
D. dominant; dominated
E. dominated; dominated

42. In order for a price taker to choose to produce a positive amount of output, it must be the case that
A. total revenue is greater than fixed cost.
B. total revenue minus total cost is greater than variable cost.
C. total revenue is greater than total cost.
D. total revenue is greater than or equal to variable cost.
E. total revenue equals total cost.

43. If economic profit is positive, then
A. accounting profit is either zero or positive.
B. accounting profit must be positive.
C. firms will be exiting the industry.
D. the firm is receiving exactly a normal profit.
E. accounting profit can be either negative, zero, or positive.

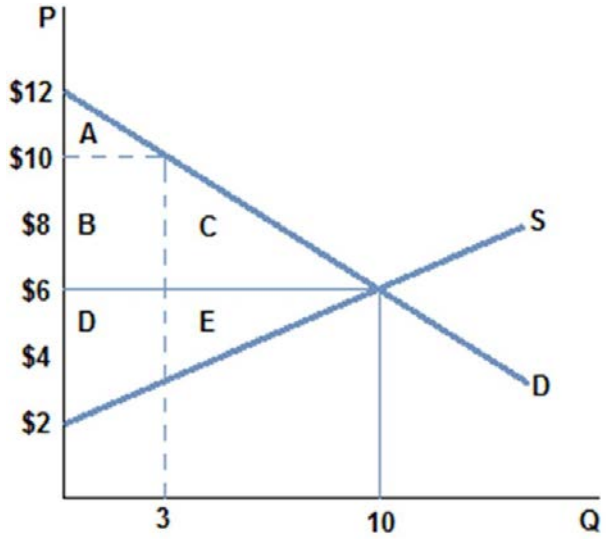
44. Consider a repeated prisoner's dilemma where firms engage in a tit-for-tat strategy. If your partner _____ on the first interaction you would then _____ in your next interaction with her.
A. defected; refuse to play
B. cooperates; defect
C. defected; cooperate
D. cooperates; refuse to play.
E. defected; defect

45. The law of demand states that
A. when the price of a product falls, people buy more of it.
B. prices will continue to rise as long as the population grows.
C. supply creates its own demand.
D. scarcity can never be solved.

46. When demand increases in a perfectly competitive market, in the short run _____, and in the long run _____.
A. prices increase; prices stay permanently higher
B. prices increase; supply increases
C. quantity supplied increases; prices increase
D. quantity supplied decreases; prices decrease

47. Both minivan sales and birth rates are on the rise. The conclusion that minivans cause people to have children would likely be a result of making the mistake of:
A. omitted variables.
B. reverse causality.
C. extrapolation.
D. correlation without causation.

48. The long-run average cost curve represents the
A. the best possible combination of inputs for output that takes at least a year to produce.
B. the best possible combination of inputs for a large quantity of output.
C. the best possible combination of inputs for any quantity of output.
D. lowest possible production cost given a fixed quantity of machinery and capital stock.
E. lowest possible production cost given the current factory size.



49.
According to the graph shown, if the market is in equilibrium, total surplus is area(s):
A. A + B + C.
B. A + B + C + D + E.
C. D + E.
D. A.

50. Sanford wants to start up his own business, and needs $50,000 to get it off the ground. He can either withdraw it from his savings account, where he currently earns 2 percent, or he can take out a loan for $50,000 and pay 2 percent interest. Sanford should compare:
A. the explicit cost of $1,000 to the implicit cost of $51,000 and choose to borrow the money.
B. the implicit cost of $1,000 to the explicit cost of $51,000 and choose to use his savings.
C. the implicit cost of $51,000 to the explicit cost of $1,000 and choose to borrow the money.
D. the explicit cost of $1,000 to the implicit cost of $1,000 and realize it will cost the same whether he borrows it or uses his savings for the venture.

Econ 201 Spring 2016 Final Exam Key
Version #1

1. C

2. C

3. E

4. A

5. D

6. B

7. C

8. E

9. B

10. B

11. D

12. C

13. D

14. D

15. B

16. E

17. B

18. B

19. B

20. A

21. E

22. A

23. D

24. B

25. A

26. D

27. A

28. C

29. C

30. B

31. D

32. B

33. C

34. D

35. E

36. C

37. B

38. B

39. B

40. D

41. C

42. D

43. B

44. E

45. A

46. B

47. B

48. C

49. B

50. D