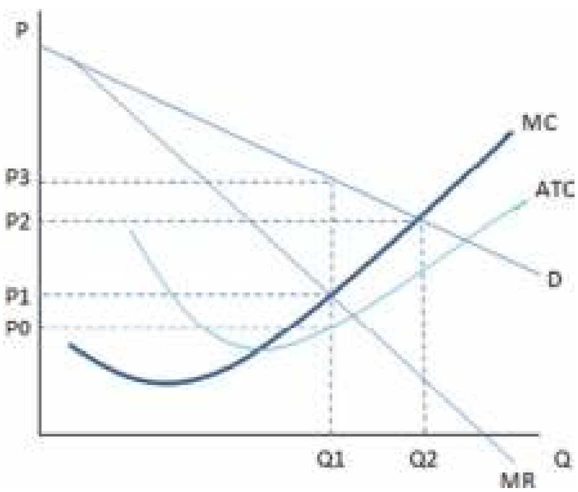
Final Exam Practice Exam E

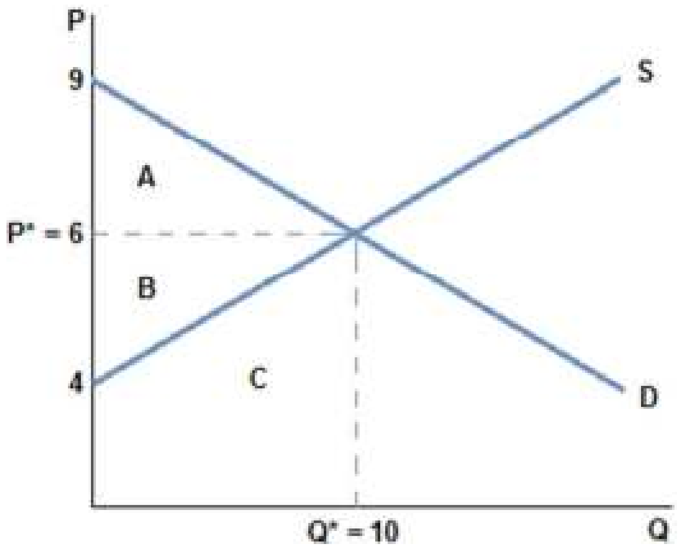
1. This graph shows the cost and revenue curves faced by a monopoly.



According to the graph, if the perfectly competitive outcome and monopoly outcome are compared, we can see that:
A. the monopoly creates deadweight loss.
B. the perfectly competitive firm would produce Q1 units.
C. the perfectly competitive firm would lose money in this industry.
D. the monopolist would charge P3 and the perfectly competitive firm would charge P1.

2. The Coase theorem reminds us that efficiency is all about ____________________ and says nothing about ______________________.
A. maximizing total surplus; the distribution of that surplus
B. None of these statements is true.
C. who gets the most surplus; whether that's a fair outcome
D. equitably distributing surplus; maximizing that surplus

3. The Widgetville County Woolfpack has won 90 percent of their last 20 games played under a full moon. This means:
A. that causation can be found between the two events.
B. that full moons cause the team to play better.
C. there is a correlation between their play and the occurrence of a full moon.
D. the weather affects how they play.

4. 

According to the graph shown:
A. consumer surplus is greater than producer surplus.
B. total surplus is smaller than producer surplus.
C. total surplus is smaller than consumer surplus.
D. producer surplus is greater than consumer surplus.

5. Large barriers to entry exist in which of the following market structures?
A. Perfect competition only
B. Oligopoly and monopoly
C. Monopoly only
D. Perfect competition and monopolistic competition

6. The principle that states the marginal product of an input decreases as the quantity of the input increases is called:
A. increasing rate of return.
B. total product optimization.
C. production function.
D. diminishing marginal product.

7. Situations in which the assumption of efficient, competitive markets fails to hold are called:
A. market interventions.
B. inelastic-response markets.
C. missing markets.
D. market failures.

8. If each player responds by imitating the action of his opponent in the previous round of a repeating game, the players are following a:
A. repeated cooperation agreement.
B. commitment strategy.
C. tit-for-tat strategy.
D. collusion plan.

9. In a perfectly competitive market, when the price is greater than the minimum average total cost for most firms, some will:
A. exit until the price drops to equal minimum ATC.
B. exit until the price increases to equal minimum ATC.
C. enter until the price increases to equal minimum ATC.
D. enter until the price drops to equal minimum ATC.

10. For a firm in a perfectly competitive market, a price decrease:
A. is unrelated to the profit-maximizing quantity.
B. increases the profit-maximizing quantity.
C. signifies the firm should leave the market.
D. lowers the profit-maximizing quantity.

11. When a negative externality is internalized in a market, total surplus:
A. increases, but producer and consumer surplus both fall.
B. increases, because producer surplus increases.
C. decreases, because producer and consumer surplus both fall.
D. decreases, because consumer surplus falls more than producer surplus increases.

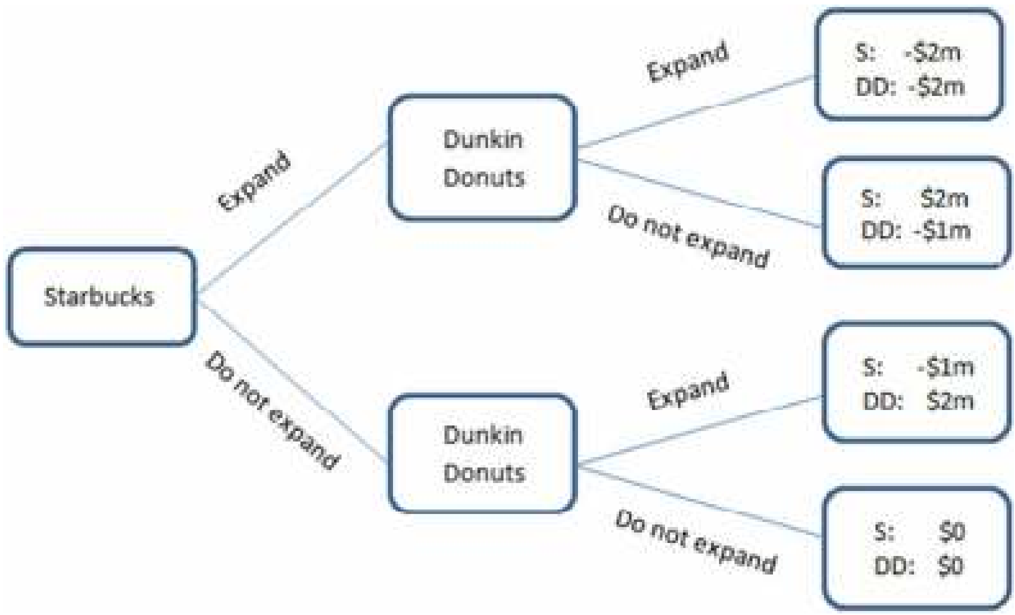
12. If the producers bear a larger portion of tax incidence than the buyers, which of the following must be true?
A. They are not as business savvy as the buyers.
B. They face a very inelastic demand.
C. Their supply curve must be more inelastic than the buyers demand curve.
D. Their supply curve must be more elastic than the buyers demand curve.

13. If the social benefit is greater than the private benefit in a particular market, then the socially optimal equilibrium will be at a quantity:
A. greater than the private level.
B. equal to the private level.
C. less than the private level.
D. greater than or less than the private level, depending on the size of the external costs.

14. In which case will the price change be the greatest (assuming the shifts described are the same size)?
A. Supply is elastic, and demand shifts to the left.
B. Demand is inelastic, and supply shifts to the left.
C. Demand is elastic, and supply shifts to the left.
D. Supply is perfectly elastic, and demand shifts to the left.

15. The equilibrium price and quantity in a monopoly market:
A. causes no welfare costs.
B. is the same as a perfectly competitive market.
C. causes a loss of total surplus.
D. is efficient.

16. A seller's willingness to sell:
A. is their reserved minimum bid-price.
B. is the minimum price that a seller is willing to accept in exchange for a good or service.
C. is the maximum price that a seller is willing to accept in exchange for a good or service.
D. must always equal the buyer's willingness to buy.



17.

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 will be:
A. neither Starbucks nor Dunkin Donuts will expand.
B. Starbucks will expand and Dunkin Donuts will not.
C. Starbucks will not expand and Dunkin Donuts will.
D. Starbucks and Dunkin Donuts will both expand.

18. 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.

		FIRM A: Collude Produce 20m	FIRM A: Compete Produce 35m
FIRM B	Collude Produce 30m	A: $200m profits B: $300m profits	A: $300 profits B: $170m profits
	Compete Produce 50m	A: $50 m profits B: $400m profits	A: $100 profits B: $200m profits

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

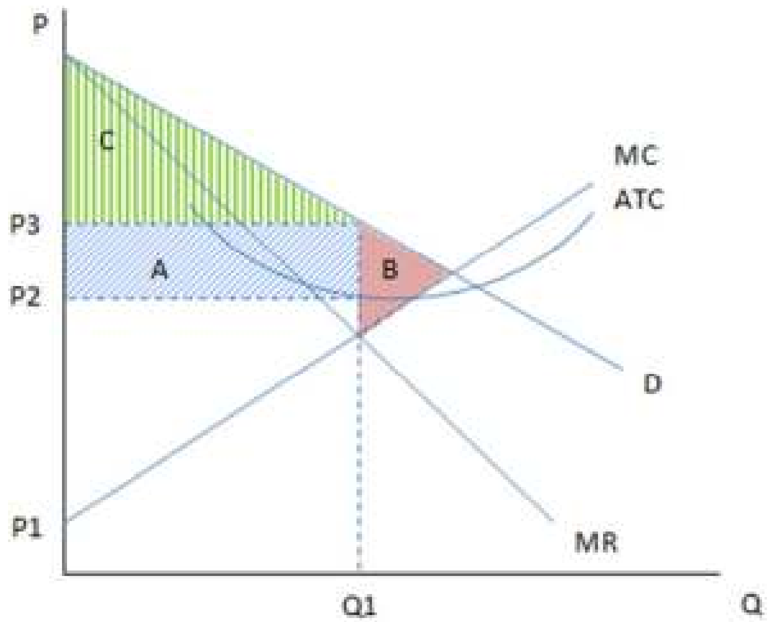
19. The marginal cost curve:
A. crosses ATC at the average total cost curve's minimum.
B. is U-shaped.
C. All of these are true.
D. rises when marginal product falls, and falls when marginal product rises.

20. The outcome of a competitive oligopoly:
A. is more efficient than that of a monopolist.
B. is more efficient than that of a perfectly competitive outcome.
C. is less efficient than that of colluding oligopolists.
D. is less efficient than that of a monopolist.

21. Returns that occur in the long run when an increase in the quantity of output decreases average total cost are called:
A. economies of scale.
B. constant returns to scale.
C. diseconomies of scale.
D. minimum average total cost.

22. 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.

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



According to the graph shown, area C represents:
A. consumer surplus.
B. producer surplus.
C. profits.
D. deadweight loss.

24. A firm realizes that the market price has fallen below its average total costs, and it is now earning a loss. What is the best action for the firm to take in the short run?
A. Stay open if total revenue is greater than fixed costs.
B. Shut down immediately and pay fixed costs only.
C. Stay open if price is greater than average variable costs.
D. Shut down if price is greater than average variable costs.

25. If a firm in a perfectly competitive market faces a market price of $8, and it decides to increase its production from 300 units to 550 units, the firm's total revenue:
A. will increase from $2,400 to $4,400.
B. will stay the same at $8.
C. will decrease from $4,400 to $2,400.
D. will likely rise, but it cannot be determined by how much.

26. In the long run, a profit-maximizing monopolistically competitive firm sells at a price that is:
A. equal to average total cost, but lower than marginal cost.
B. equal to marginal cost and marginal revenue.
C. equal to average total cost, but higher than marginal cost.
D. equal to demand, but higher than average total cost and marginal cost.

27. Mexico has a comparative advantage in producing corn:
A. regardless of the opportunity cost in other countries.
B. if its opportunity cost of producing corn is higher than the opportunity cost in other countries.
C. if its opportunity cost of producing corn is lower than the opportunity cost in other countries.
D. if its opportunity cost of producing corn is the same as the opportunity cost in other countries.

28. When a perfectly competitive firm increases output, total revenue:
A. increases, because there is no quantity effect.
B. decreases, because there is no quantity effect.
C. increases, because there is no price effect.
D. decreases, because there is no price effect.

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

30. Average variable costs:
A. increase when output declines, and decrease when output rises.
B. decrease when marginal product rises, and increase when marginal product declines.
C. decrease when output declines, and increase when output declines.
D. increase when marginal product rises, and decrease when marginal product declines.

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

32. For a monopolist, total revenues:
A. decrease as output increases.
B. decrease and then increase as output increases.
C. increase and then decrease as output increases.
D. increase as output increases.

33. If a monopolistically competitive firm is suffering losses in the short run:
A. the exit of competing firms will shift the firm's demand to the left.
B. the exit of competing firms will shift the firm's demand to the right.
C. the exit of competing firms will cause price to drop, but not affect the firm's demand curve.
D. the exit of competing firms will cause price to rise, but not affect the firm's demand curve.

34. If a firm decreases production, then its:
A. variable costs rise.
B. All of these are true.
C. fixed costs stay the same.
D. total costs increase.

35. Suppose Chip's Chips produces bags of potato chips that sell for $3 a bag. If they sold 12,000 bags and incurred total costs of $30,000, what was the company's profit?
A. $18,000
B. $6,000
C. $36,000
D. $42,000

36. If demand is highly elastic and supply shifts to the left:
A. price will rise significantly; quantity hardly changes at all.
B. price and quantity will hardly change at all.
C. price will hardly change at all; quantity will decline significantly.
D. price will rise significantly and quantity will fall significantly.

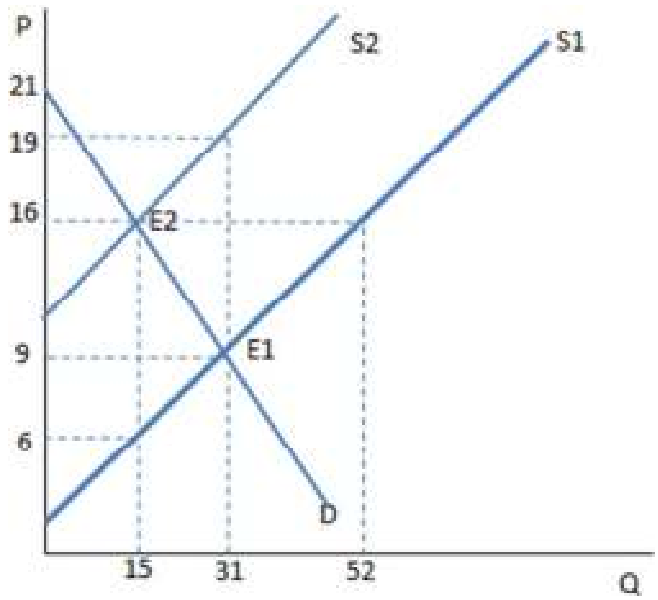
37. When accounting profits are positive, economic profits could be:
A. positive.
B. zero.
C. All of these are possible.
D. negative.

38. There was a bumper crop of blueberries last year due to the increased rainfall. This plentiful supply of blueberries caused their price to drop. Bakeries regularly produce and sell blueberry pie. Considering the market for blueberry pies, what factor of supply has been affected, and what was the overall effect on the supply?
A. The price of an input has been affected; supply will increase.
B. The price of an input has been affected; supply will decrease.
C. The number of sellers has been affected; supply will increase.
D. The new technology has been affected; supply will increase.

39. Total revenue decreases as output increases when demand is:
A. downward sloping.
B. perfectly elastic.
C. price elastic.
D. price inelastic.

40.

The outcome of the game in the figure shown will be:
A. Nike charges a low price, and Adidas charges a high price.
B. Nike and Adidas both charge a low price.
C. Nike charges a high price, and Adidas charges a low price.
D. Nike and Adidas both charge a high price.

41. 

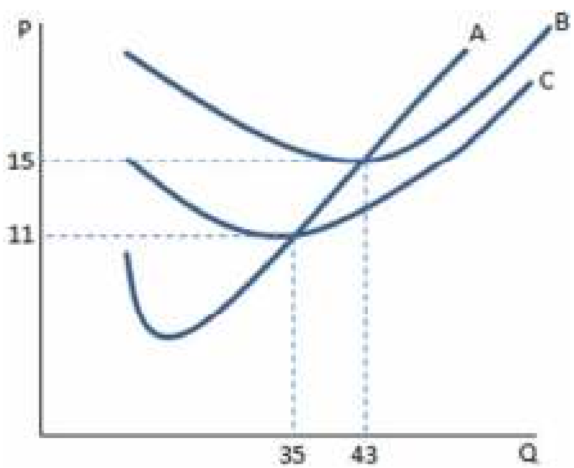
The graph shown demonstrates a tax on sellers. Once the tax has been imposed, the sellers produce ____ units and receive _____ for each one sold.
A. 15; $6
B. 15; $16
C. 31; $19
D. 31; $9

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

43. For a firm in a perfectly competitive market, if it produces where marginal cost exceeds marginal revenue:
A. The firm is not maximizing profits, but it is impossible to tell how quantity should be changed without more information.
B. it should cut back production to increase profits.
C. it is producing a profit-maximizing quantity.
D. it should increase production to increase profits.

44. Junie is shopping for dinner. She picks up a package of hot dogs on sale, instead of the burgers she was intending to buy. She then heads over to buy a package of hot dog buns. Junie's change in the demand for hot dog buns is due to:
A. a change in Junie's income.
B. a change in the price of related goods.
C. a change in Junie's preferences.
D. a change in Junie's expectation of future prices.

45. Explicit costs are costs that:
A. require a firm to spend money.
B. are zero when no output is produced.
C. do not depend on the quantity of output produced.
D. depend on the quantity of output produced.

46. 

If a firm in a perfectly competitive market faces the cost curves in the graph shown and observes a market price of $10, the firm:
A. cannot make positive profits and should shut down in the short run.
B. can make positive profits by producing more than 43 units.
C. should continue to operate in the short run, but plan to exit in the long run.
D. can make positive profits by producing where MC = MR.

47. Perfect price discrimination:
A. All of these statements are true.
B. maximizes producer surplus.
C. creates no deadweight loss.
D. eliminates all consumer surplus.

48. Each point of a firm's supply curve represents a price-quantity pair where:
A. MC = MR.
B. MC = ATC.
C. P = min ATC.
D. P = min AVC.

49. An incentive is:
A. something that causes people to behave in a certain way by changing the trade-offs they face.
B. the marginal benefit of engaging in a course of action.
C. rational behavior that involves thinking on the margin.
D. the marginal cost of engaging in a course of action.

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

Key

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

32. C

33. B

34. C

35. B

36. C

37. C

38. A

39. D

40. B

41. A

42. A

43. B

44. B

45. A

46. A

47. A

48. A

49. A

50.