

Old Exam Questions Which Cover Chapter 11 Topics

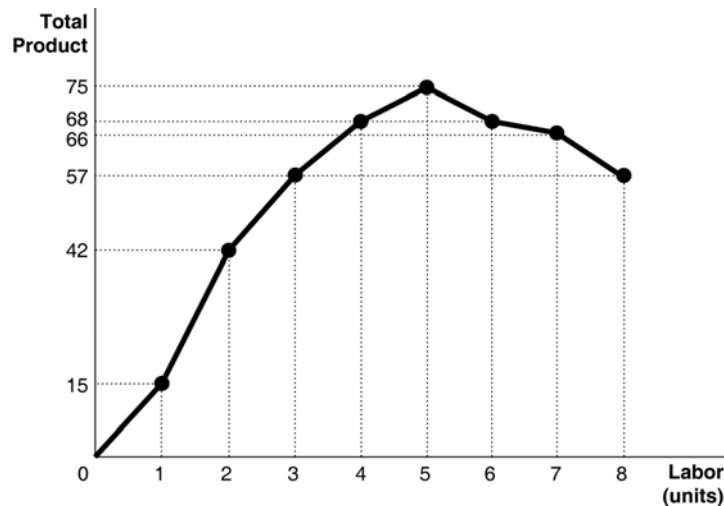
MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Suppose a chain of convenience stores reorganized its system of supplying its stores with food. This led to a sharp reduction in the number of trucks that the company had to use and increased the amount of fresh food on store shelves. Which of the following statements best describes the chain stores' actions? 1) _____
- A) The firm is able to produce more output (increase its sales) using fewer inputs (less trucks). Therefore, the chain of convenience stores has implemented a positive technological change.
 - B) The change implemented is not an example of technological change because it did not require the use of new machinery or equipment.
 - C) The scenario described is an example of management efficiency and not technological change. Essentially, the chain changes its way of operating its business.
 - D) Technological change refers only to the introduction of new products or improvements to existing product. As such, the scenario described in the question is not technological change.
- 2) Which of the following is the best example of a long run adjustment? 2) _____
- A) Ford Motor Company lays off 2,000 assembly line workers.
 - B) Wal-Mart builds another Supercenter.
 - C) A soybean farmer turns on the irrigation system after a month long dry spell.
 - D) Your university offers Saturday morning classes next fall.
- 3) If a producer is not able to expand its plant capacity immediately, it is 3) _____
- A) operating in the long run.
 - B) operating in the short run.
 - C) bankrupt.
 - D) losing money.
- 4) Which of the following is an implicit cost of production? 4) _____
- A) rent that could have been earned on a building owned and used by the firm
 - B) interest paid on a loan to a bank
 - C) wages paid to labor
 - D) the utility bill paid to water, electricity, and natural gas companies
- 5) Jayanthi moves her yoga studio from her home to a space she rents in Oakland, California. Holding everything else constant, as a result of this move, 5) _____
- A) her economic cost rises.
 - B) her opportunity cost rises.
 - C) her implicit cost falls and her explicit cost rises.
 - D) her explicit cost falls and her implicit cost rises.
- 6) 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. Calculate Vipsana's variable cost per day when she produces 50 gyros using two workers? 6) _____
- A) \$100
 - B) \$124.40
 - C) \$220
 - D) \$240
- 7) 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. Calculate Vipsana's total cost per day when she produces 50 gyros using two workers? 7) _____
- A) \$100
 - B) \$124.40
 - C) \$220
 - D) \$340

- 8) The law of diminishing marginal returns
- A) causes the difference between average total cost and average variable cost to get smaller as output increases.
 - B) explains why the average total cost, average fixed cost and the marginal cost curves are U-shaped in the short run.
 - C) causes average total costs to rise at a decreasing rate as output increases.
 - D) explains why the average total cost and marginal cost curves are U-shaped in the short run.

8) _____

Figure 10-1



- 9) Refer to Figure 10-1. The marginal product of the 3rd worker is
- A) 57.
 - B) 19.
 - C) 15.
 - D) 11.

9) _____

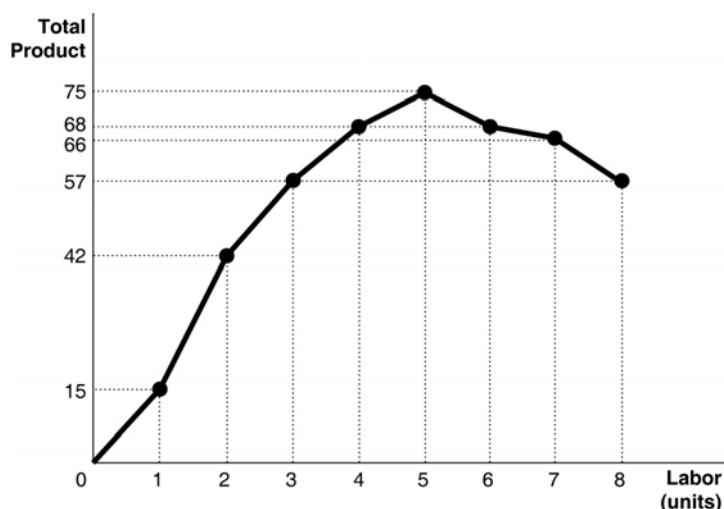
- 10) Refer to Figure 10-1. The average product of the 4th worker
- A) is 68.
 - B) is 17.
 - C) is 11.
 - D) cannot be determined.

10) _____

- 11) What is the difference between "diminishing marginal returns" and "decreasing returns to scale"?
- A) Diminishing marginal returns is a long run concept in which the level of at least one input is held constant, while decreasing returns to scale is a short-run concept in which the levels of all inputs are variable.
 - B) Diminishing marginal returns is a short-run concept in which the level of at least one input is held constant, while decreasing returns to scale is a long run concept in which the levels of all inputs are variable.
 - C) Diminishing marginal returns is a short-run concept in which the level of at least one input is held constant, while decreasing returns to scale is a long run concept in which the levels of all inputs are held constant.
 - D) Diminishing marginal returns is a long run concept in which the level of at least one input is held constant, while decreasing returns to scale is a short-run concept in which the levels of all inputs are held constant.

11) _____

Figure 10-1



- 12) Refer to Figure 10-1. Diminishing marginal productivity sets in after _____
- A) the 2nd worker is hired. B) the 3rd worker is hired.
- C) the 4th worker is hired. D) the 5th worker is hired.
- 13) If 11 workers can produce a total of 54 units of a product and a 12th worker has a marginal product of 6 units, then the average product of 12 workers is _____
- A) 60 units. B) 54 units. C) 48 units. D) 5 units.
- 14) If another worker adds 9 units of output to a group of workers who had an average product of 7 units, then the average product of labor _____
- A) will remain the same.
- B) will decrease.
- C) will increase.
- D) and what will happen to it cannot be determined.
- 15) In the short run, if marginal product is at its maximum, then _____
- A) average variable cost is at its minimum. B) average cost is at its minimum.
- C) marginal cost is at its minimum. D) total cost is at its maximum.
- 16) If the 15th unit of output has a marginal cost of \$29.50 and the average cost of producing 14 units of output is \$30.23, what will happen to the average cost of production if the 15th unit is produced? _____
- A) Average cost increases as more is produced.
- B) Average cost could increase or decrease depending on what happens to variable cost.
- C) Average cost could increase or decrease depending on what happens to fixed cost.
- D) Average cost will fall.
- 17) If the average variable cost curve is above the marginal cost curve, then _____
- A) average variable costs must be increasing.
- B) marginal costs must be increasing.
- C) marginal costs can be either increasing or decreasing.
- D) marginal costs must be decreasing.

18) Which of the following costs will *not* change as output changes?

18) _____

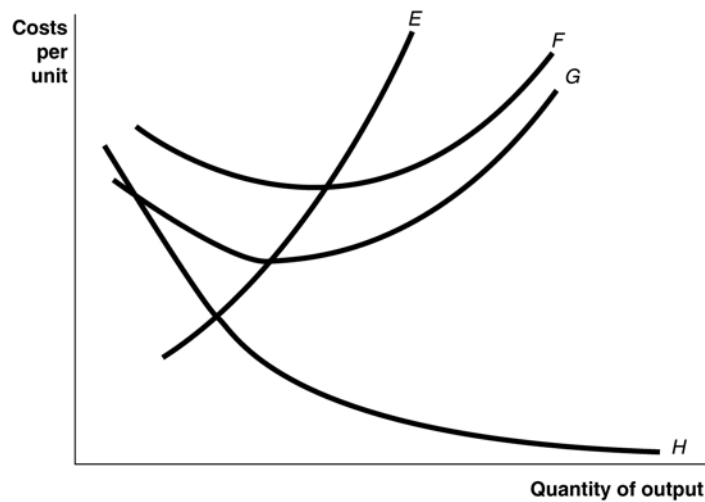
- A) average variable cost
- B) average fixed cost
- C) total variable cost
- D) marginal cost
- E) total fixed cost

19) If the total cost of producing 20 units of output is \$1,000 and the average variable cost is \$35, what is the firm's average fixed cost at that level of output?

19) _____

- A) \$65
- B) \$50
- C) \$15
- D) It is impossible to determine without additional information.

Figure 10-4



20) Refer to Figure 10-4. The vertical difference between curves F and G measures

20) _____

- A) marginal costs.
- B) average fixed costs.
- C) sunk costs.
- D) fixed costs.

21) Over the past twenty years, the number of small family farms has fallen significantly and in their place there are fewer, but larger, farms owned by corporations. Which of the following best explains this trend?

21) _____

- A) economies of scale in farming
- B) diseconomies of scale in farming
- C) declining productivity
- D) diminishing returns to labor in farming

22) The long-run average cost curve shows

22) _____

- A) the plant size or scale that the firm should build.
- B) where the most profitable level of output occurs.
- C) the lowest average cost of producing every level of output in the long run.
- D) the average cost of producing where diminishing returns are not present.

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

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

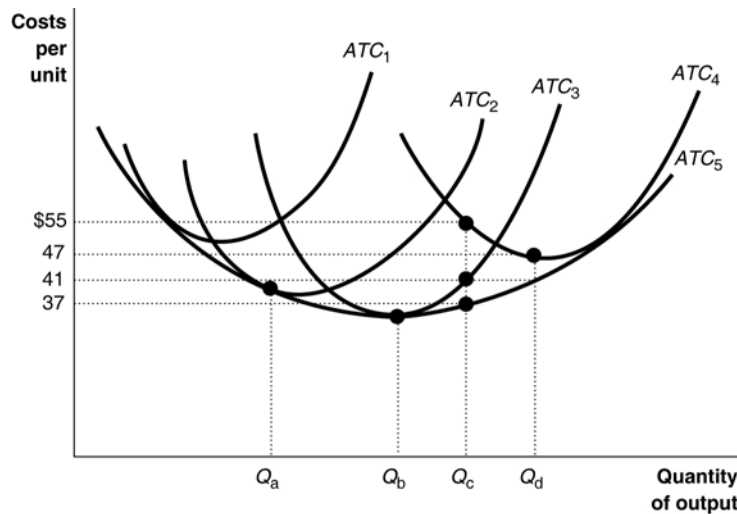
23) _____

24) The minimum efficient scale is

- A) the plant size that yields the most profit.
- B) the smallest output level where the firm finally reaches productive efficiency.
- C) level of operation where long-run average costs are lowest.
- D) the level of output where diminishing returns have not set in yet.

24) _____

Figure 10-5



25) Refer to Figure 10-5. Suppose for the past 8 years the firm has been producing Q_d units per period using plant size ATC_4 . Now, following a permanent change in demand, it plans to cut production to Q_c units. What will happen to its average cost of production?

25) _____

- A) In the short run, its average cost falls from \$47 to \$41, and in the long run, average cost falls even further to \$37.
- B) In the short run, its average cost rises from \$47 to \$55, and in the long run, average cost falls back to \$47.
- C) In the short run, its average cost rises from \$47 to \$55, and in the long run, average cost falls to \$37.
- D) In the short run, its average cost falls from \$47 to \$37, and in the long run, average cost rises to \$41.

26) Which of the following is an example of positive technological change?

26) _____

- A) A firm's workers participate in a training program designed to increase the number of surf boards they can produce per day.
- B) A firm conducts a new advertising campaign. As a result, the demand for the firm's surf boards increases.
- C) A firm offers workers a higher wage to work on weekends and at night. As a result, the firm is able to increase its weekly production of surf boards.
- D) A firm buys an additional machine that it uses to make surf boards. As a result, the firm is able to increase its weekly production of surf boards.

- 27) Which of the following is the best example of a short run adjustment? 27) _____
- A) Your local Wal-Mart hires two more associates.
 - B) Toyota builds a new assembly plant in Texas.
 - C) Nelson University completed negotiations to acquire a large piece of land to build its new library.
 - D) A local bakery purchases another commercial oven as part of its capacity expansion.
- 28) Which of the following are implicit costs for a typical firm? 28) _____
- A) a business licensing fee
 - B) the cost of labor hired by the firm
 - C) utilities cost
 - D) opportunity costs of capital owned and used by the firm
 - E) All of the Above
- 29) Suppose that your goal is to get the best grade possible on your Economics exam. As you are studying, you begin to experience diminishing marginal returns to studying. Thus, you should 29) _____
- A) invent a time machine, go back in time, and "undo" the last few hours of studying as they hurt your grade more than they helped it.
 - B) stop studying
 - C) continue studying
- 30) If another worker adds 9 units of output to a group of workers who had an average product of 7 units, then the average product of labor 30) _____
- A) will increase.
 - B) will decrease.
 - C) will remain the same.
 - D) It cannot be determined what will happen to the average product.

Table 10-1

Number of Workers	Mushrooms per Day (pounds)
1	12
2	30
3	45
4	50
5	54
6	56

Table 10-1 shows the technology of production at the Matsuko's Mushroom Farm for the month of May 2007.

- 31) *Refer to Table 10-1.* Diminishing marginal returns sets in when the _____ worker is hired. 31) _____
- A) 3rd
 - B) 4th
 - C) 2nd
 - D) None of the above; the production function displays increasing marginal returns.

- 32) If the marginal cost curve is below the average variable cost curve, then 32) _____
- A) average variable cost is decreasing.
 - B) average variable cost could either be increasing or decreasing.
 - C) average variable cost is increasing.
 - D) marginal cost must be decreasing.
- 33) If fixed costs do not change, then marginal cost 33) _____
- A) also remains constant.
 - B) equals the change in average variable cost divided by the change in output.
 - C) equals the change in variable cost divided by the change in output.
 - D) equals the change in average fixed cost divided by the change in output.

Table 10-2

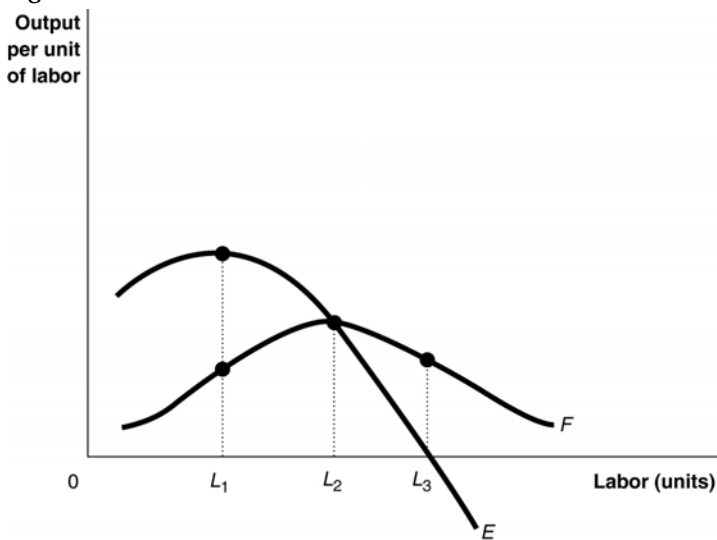
Quantity of Lanterns	Fixed Cost (dollars)	Variable Cost (dollars)	Total Cost (dollars)	Average Total Cost (dollars)
75	200	170	370	4.93
80	200	230	430	5.36
90	200			7.67
100	200	810		
115	200			11.8
117	200	1264	1464	12.5
120	200	1480		

Table 10-2 shows cost data for Lotus Lanterns, a producer of whimsical night lights.

- 34) *Refer to Table 10-2.* What is the variable cost of production when the firm produces 115 lanterns? 34) _____
- A) \$1,157
 - B) \$956
 - C) \$10.05
 - D) \$1,556
 - E) \$1,298
- 35) *Refer to Table 10-2.* What is the marginal cost per unit of production when the firm produces 100 lanterns? 35) _____
- A) \$420
 - B) \$32
 - C) \$11.1
 - D) \$8.1
- 36) *Refer to Table 10-2.* What is the total cost of production when the firm produces 115 lanterns? 36) _____
- A) \$1,556
 - B) \$11.80
 - C) \$1,357
 - D) \$1,157
 - E) \$956
- 37) *Refer to Table 10-2.* What is the average total cost of production when the firm produces 100 lanterns? 37) _____
- A) \$10.10
 - B) \$1,157
 - C) \$956
 - D) \$11.80
 - E) \$1,556
- 38) *Refer to Table 10-2.* Between 80 and 90 lanterns, what is the marginal cost producing a lantern? 38) _____
- A) \$5.67
 - B) \$11.80
 - C) \$26.03
 - D) \$10.10
 - E) \$7.67
- 39) If average total cost is \$50 and average fixed cost is \$15 when output is 20 units, then the firm's total variable cost at that level of output is 39) _____
- A) \$300.
 - B) \$700.
 - C) \$35.
 - D) \$1,000.
 - E) impossible to determine without additional information.

- 40) If, when a firm doubles all its inputs, its long-run average cost of production decreases, then production displays _____
 A) economies of scale. B) diminishing returns.
 C) diseconomies of scale. D) declining fixed costs.
- 41) Which of the following is a factor of production that generally is fixed in the short run? _____
 A) raw materials B) a factory building
 C) electricity D) labor
- 42) Which of the following are implicit costs for a typical firm? _____
 A) opportunity costs of capital owned and used by the firm
 B) utilities cost
 C) a business licensing fee
 D) the cost of labor hired by the firm

Figure 11-2



- 43) Refer to Figure 11-2. The curve labeled "E" is the marginal product of labor, while the curve labeled F is the average product of labor. Diminishing returns to labor set in _____
 A) after L_1 . B) after L_2 . C) after L_3 . D) immediately.
- 44) Refer to Figure 11-2. The curve labeled "E" is the marginal product of labor, while the curve labeled F is the average product of labor. "Teamwork effects" occur until _____ units of labor.
 A) L_1 . B) L_2 . C) L_3 .
- 45) Which of the following explains why the marginal cost curve has a hooked shape? _____
 A) Initially, the marginal product of labor rises, then falls.
 B) Initially, the average cost of production rises, then falls.
 C) Initially, the marginal product of labor falls, then rises.
 D) Initially, the average product of labor rises, then falls.

Figure 11-7

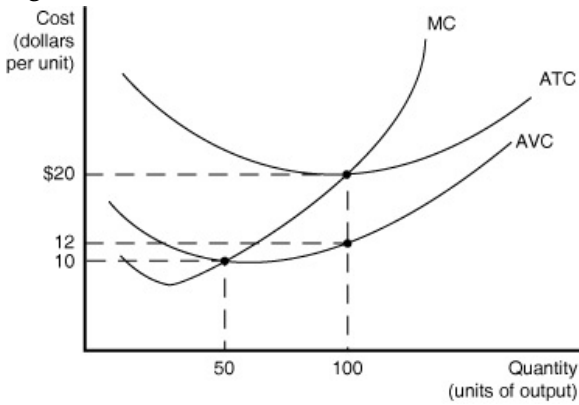


Figure 11-7 shows the cost structure for a firm.

- 46) Refer to Figure 11-7. When the output level is 100 units, total variable cost is _____
 A) \$1200.
 B) \$800.
 C) \$2000.
 D) This cannot be determined from the diagram.
- 47) Refer to Figure 11-7. When the output level is 100 units, total cost is _____
 A) \$500.
 B) \$2000.
 C) \$800
 D) \$1200.
 E) This cannot be determined from the diagram.
- 48) Refer to Figure 11-7. When the output level is 100 units, fixed cost is _____
 A) \$2000.
 B) \$500.
 C) \$1200.
 D) \$800
 E) This cannot be determined from the diagram.
- 49) When the demand for electricity peaks during the hottest days of summer, Florida Power and Light Company can generate more electricity by using more fuel and increasing the working hours of many of its employees. The company cannot, however, increase electric power production by building additional generating capacity. This means that the company is in the _____
 A) intermediate run.
 B) long run.
 C) short run.
 D) market run.
- 50) The marginal product of labor is the increase in total output from a _____
 A) one dollar increase in the wage rate, while holding the price of other inputs constant.
 B) one percent increase in the wage rate, while also increasing the price of other inputs by one percent.
 C) one unit increase in the quantity of labor, while holding the quantity of other inputs constant.
 D) one unit increase in the quantity of labor, while also increasing the quantity of other inputs by one unit.

Pizza Hut

Labor (workers)	Total output (pizzas produced per hour)
0	0
1	4
2	9
3	12
4	14
5	15

- 51) Using the data in the above table, when do diminishing marginal returns to labor set in? 51) _____
- A) after the 1st worker
B) after the 2nd worker
C) after the 3rd worker
D) after the 4th worker
E) None of the above – In the example diminishing marginal returns never set in
- 52) Using the data in the above table, the marginal product of the 3rd worker is ____ pizzas the average product of the 3rd worker is ____ pizzas. 52) _____
- A) 12 ; 4 B) 4 ; 12 C) 4 ; 3 D) 3 ; 12 E) 3 ; 4
- 53) As output increases, *AVC* approaches *ATC* because of 53) _____
- A) decreasing average fixed cost. B) diseconomies of scale.
C) increasing marginal cost. D) diminishing marginal returns.

Output (pies)	Total variable cost (dollars)	Total cost (dollars)
0	0	300
100	400	
200	1,000	
300	1,800	
400	2,800	

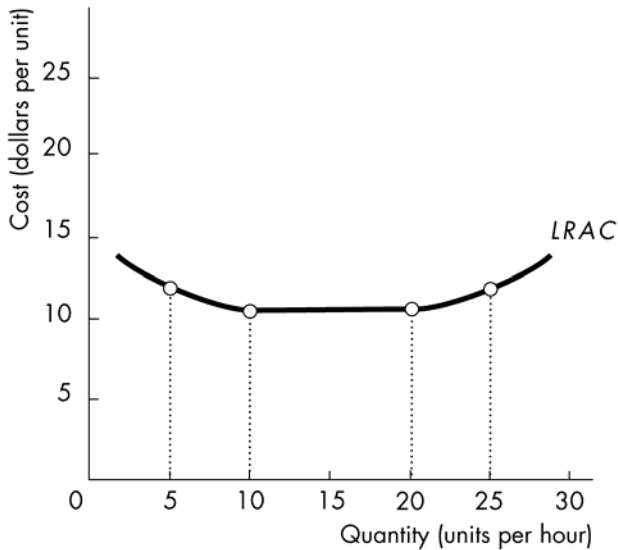
- 54) The above table gives some of the costs of the Delicious Pie Company. What is the average total cost of producing 200 pies? 54) _____
- A) \$5.00
B) \$650
C) \$50
D) \$6.50
E) More information is needed to calculate the average total cost.
- 55) Which of the following explains why the marginal cost curve has a hooked shape? 55) _____
- A) Initially, the marginal product of labor falls, then rises.
B) Initially, the marginal product of labor rises, then falls.
C) Initially, the average product of labor rises, then falls.
D) Initially, the average cost of production rises, then falls.

56) When a firm experiences economies of scale, its _____ cost curve slopes _____ as output increases.

- A) short-run average total; downward
C) long-run average; upward

- B) short-run marginal cost; downward
D) long-run average; downward

56) _____



57) In the above figure, between 20 and 25 units per hour, the firm experiences

- A) constant returns to scale.
C) diseconomies of scale.

- B) increasing total fixed costs.
D) economies of scale.

57) _____

58) If 11 workers can produce a total of 54 units of a product and a 12th worker has a marginal product of 6 units, then the average product of 12 workers is

- A) 60 units.
B) 54 units.
C) 48 units.
D) 5 units.

58) _____

59) When a firm experiences a positive technological change (as always choice the best answer)

- A) the price of a share of the firm's stock rises.
B) the firm will hire additional workers in order to increase production.
C) the firm is able to produce more output using the same inputs, or the same output using fewer inputs.
D) the value of the firm's assets rises.

59) _____

60) In general, if marginal product is greater than average product, then average product will _____.

- A) decrease
B) not change
C) increase

60) _____

61) If the average variable cost curve is above the marginal cost curve, then

- A) average variable costs must be increasing.
B) marginal costs must be decreasing.
C) marginal costs must be increasing.
D) marginal costs can be either increasing or decreasing.

61) _____

Answer Key

Testname: 201 CHAPTER 11 OLD EXAM QUESTIONS

- 1) A
- 2) B
- 3) B
- 4) A
- 5) C
- 6) C
- 7) D
- 8) D
- 9) C
- 10) B
- 11) B
- 12) A
- 13) D
- 14) C
- 15) C
- 16) D
- 17) C
- 18) E
- 19) C
- 20) B
- 21) A
- 22) C
- 23) A
- 24) C
- 25) C
- 26) A
- 27) A
- 28) D
- 29) C
- 30) A
- 31) A
- 32) A
- 33) C
- 34) A
- 35) B
- 36) C
- 37) A
- 38) C
- 39) B
- 40) A
- 41) B
- 42) A
- 43) A
- 44) A
- 45) A
- 46) A
- 47) B
- 48) D
- 49) C
- 50) C

Answer Key

Testname: 201 CHAPTER 11 OLD EXAM QUESTIONS

- 51) B
- 52) E
- 53) A
- 54) D
- 55) B
- 56) D
- 57) C
- 58) D
- 59) C
- 60) C
- 61) D