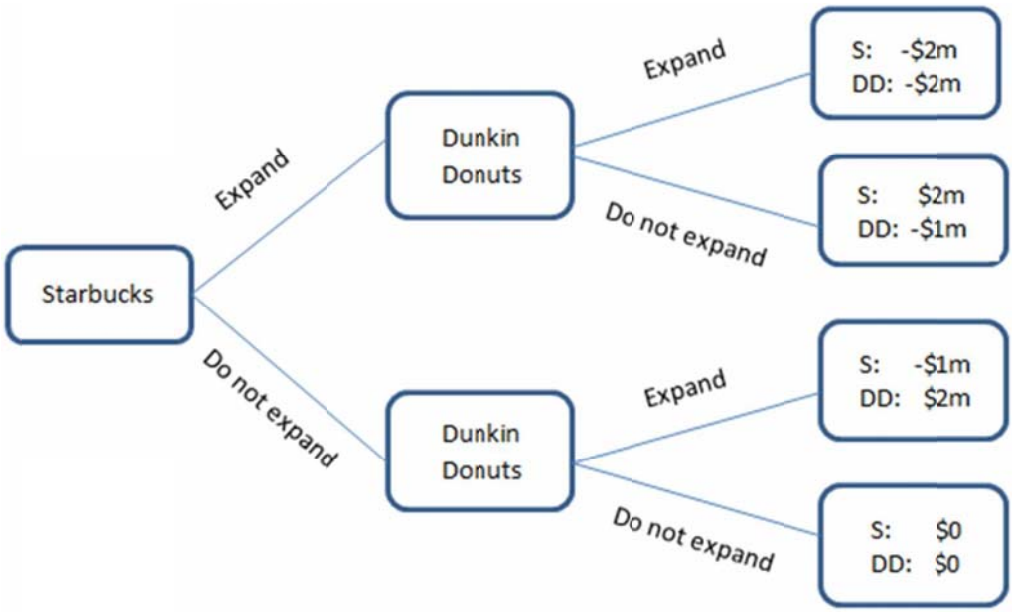
Sample Final Exam Version H

1.

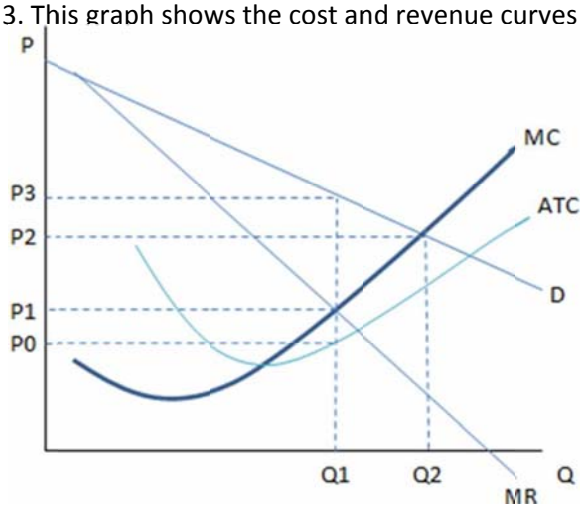


This figure displays the choices being made by two coffee shops: Starbucks and Dunkin Donuts. Both companies are trying to decide whether or not to expand in an area. The area can handle only one of them expanding, and whoever expands will cause the other to lose some business. If they both expand, the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

If the players in the figure shown act in their own self-interest, then we know that Dunkin Donuts will earn:
A. -$2 million.
B. -$1 million.
C. $2 million.
D. $0 million.

2. A factory recently added new robots to its production line, increasing productivity. This will likely cause:
A. a shift straight up of the supply curve.
B. a rightward shift of the supply curve.
C. a leftward shift of the supply curve.
D. a movement up along the supply curve.

3. 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 perfectly competitive firm would lose money in this industry.
B. the monopolist would charge P3 and the perfectly competitive firm would charge P1.
C. the perfectly competitive firm would produce Q1 units.
D. the monopoly creates deadweight loss.

4. The profit-maximizing level of output for any firm in a perfectly competitive market is to produce where:
A. MC < MR.
B. MR = P*.
C. MC = MR.
D. MC > MR.

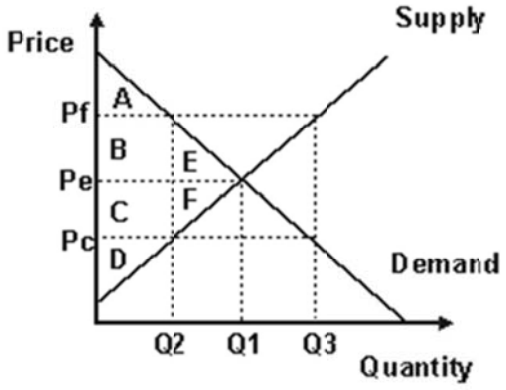
5. Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. For Tom, the opportunity cost of building a bomb is _____ traps set.
A. 4
B. 8
C. 16
D. 12

6. Price discrimination is:
A. the practice of charging customers different prices for the same good.
B. the practice of charging customers the same price for a variety of similar goods.
C. the process of customers choosing items based on price.
D. choosing which prices to charge for certain items.

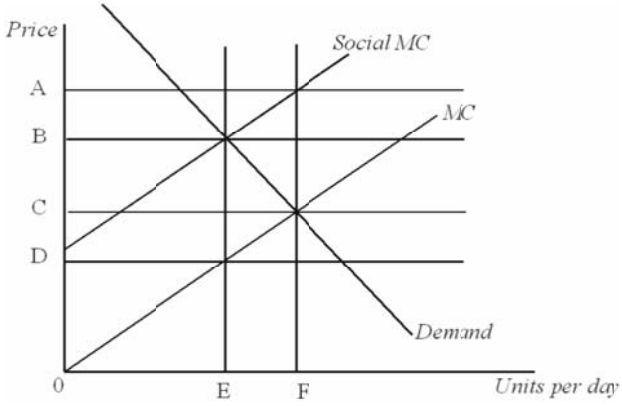
7. The monopolist and the perfectly competitive firm both choose to maximize profits by choosing the level of output where:
A. MC equals MR and price is equal to minimum ATC.
B. MC equals MR and price is equal to AR.
C. the two types of firms make their profit-maximizing decision differently.
D. MC equals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

8. Average variable costs:
A. always trend downward as output increases.
B. increase, then decrease as output increases.
C. decrease, then increase as output increases.
D. always trend upward as output increases.

9.



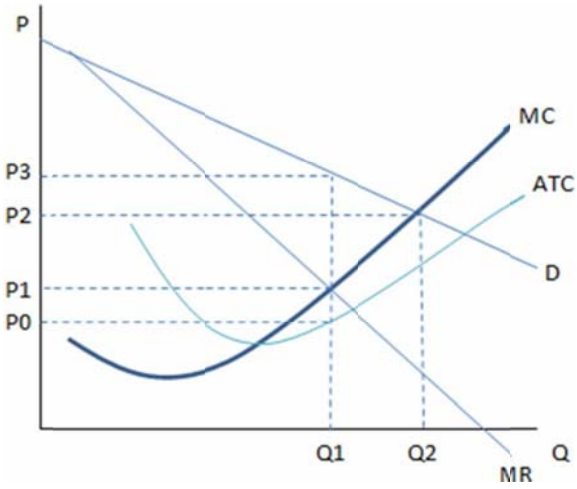
Refer to the graph shown. With an effective price floor at P_f, total surplus is reduced by:
A. rectangles A and D.
B. triangles E and F.
C. rectangles B and C.
D. rectangle B and triangle E.

10. 

Refer to the figure above. The deadweight loss associated with private incentives in this market is a triangle with area equal to _____.

A. ½ × 0C × 0E
B. ½ × EF × AB
C. ½ × EF × AC
D. ½ × EF × BC

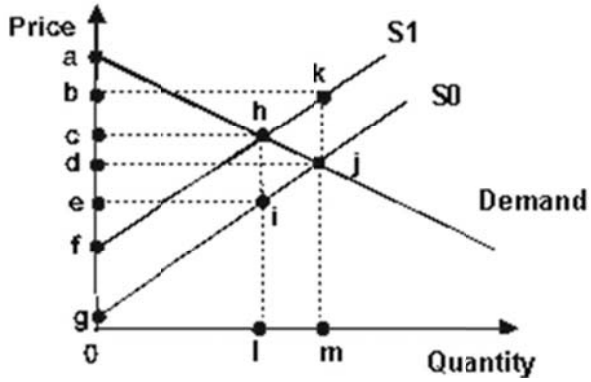
11. This graph shows the cost and revenue curves faced by a monopoly.



According to the graph shown, the profit being earned by this monopolist is:

A. (P3 - P1) x Q1
B. (P3 - P0) x Q1
C. (P1 - P0) x Q1
D. (P3 - P0)/Q1

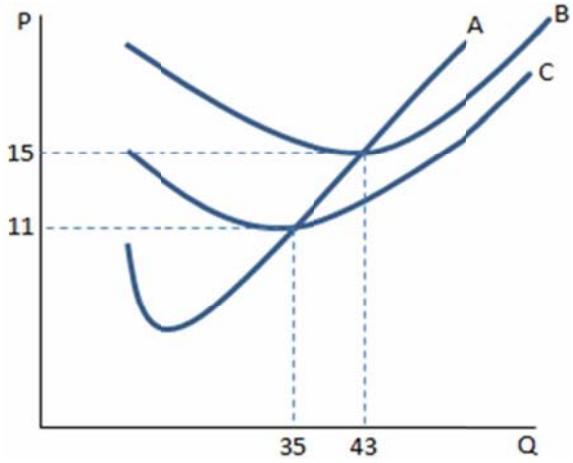
12.



Refer to the graph shown. Assume the market is initially in equilibrium at point j in the graph but the imposition of a per-unit tax on this product shifts the supply curve up from S_0 to S_1. The lost producer surplus of this tax is equal to the area:

A. deij.
B. hji.
C. cdjh.
D. khj.

13.



Of the curves displayed in the graph shown, what does curve B most likely represent?

A. Average variable cost
B. Average fixed cost
C. Marginal cost
D. Average total cost

14. Each point of a firm's supply curve represents a price-quantity pair where:

A. MC = MR.
B. P = min ATC.
C. MC = ATC.
D. P = min AVC.

15. 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 $1,000 and realize it will cost the same whether he borrows it or uses his savings for the venture.
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 $51,000 and choose to borrow the money.

16. When firms enter a market, the supply increases and:
A. price increases and profits increase.
B. price increases and profits decrease.
C. price falls and profits decrease.
D. price falls and profits increase.

17. The extra cost associated with producing or consuming the next unit is called the:
A. variable cost.
B. utility cost.
C. sunk cost.
D. marginal cost.

18. If firms are producing at a profit-maximizing level of output where the price is equal to the average total cost:
A. economic profits must be zero.
B. accounting profits may be negative.
C. accounting profits must be zero.
D. economic profits may be positive.

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

20. Taxes:
A. create a wedge between the price consumers pay and the price suppliers receive.
B. cause the equilibrium quantity to increase.
C. cause the price consumers pay to equal the price suppliers receive.
D. cause market shortages.

21. A price taker is a buyer or seller who:
A. has complete control over setting the market price.
B. can influence the market price.
C. has no control over setting the market price.
D. has the goal of maximizing market share, not profits.

22. Assuming elasticity is reported in absolute value, a measured price elasticity of demand of 0.4 would indicate:
A. an inelastic demand, meaning the percentage change in quantity demanded will be greater than the percentage change in price.
B. an elastic demand, meaning the percentage change in quantity demanded will be less than the percentage change in price.
C. an elastic demand, meaning the percentage change in quantity demanded will be greater than the percentage change in price.
D. an inelastic demand, meaning the percentage change in quantity demanded will be less than the percentage change in price.

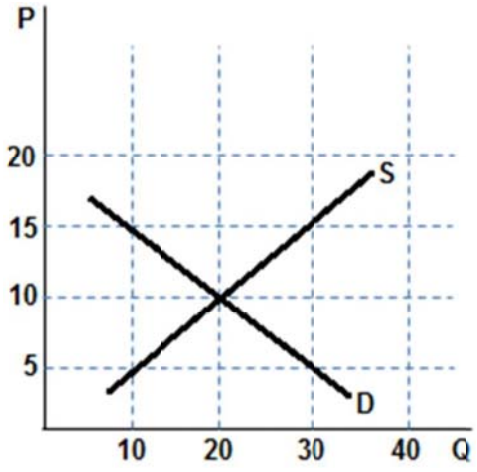
23. The fixed cost curve:
A. is flatter when output levels are low, then gets steeper as output increases.
B. is a constant, vertical line.
C. is a constant, flat line.
D. is steep when output levels are low, then flattens as output increases.

24.

The stable outcome of the game in the figure shown will be:

A. Nike and Adidas both charge a high price.
B. Nike charges a high price, and Adidas charges a low price.
C. Nike charges a low price, and Adidas charges a high price.
D. Nike and Adidas both charge a low price.

25.



According to the graph shown, the equilibrium price is _____ and equilibrium quantity is ____.
A. $10; 20
B. $15; 30
C. $20; 10
D. $5; 30

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

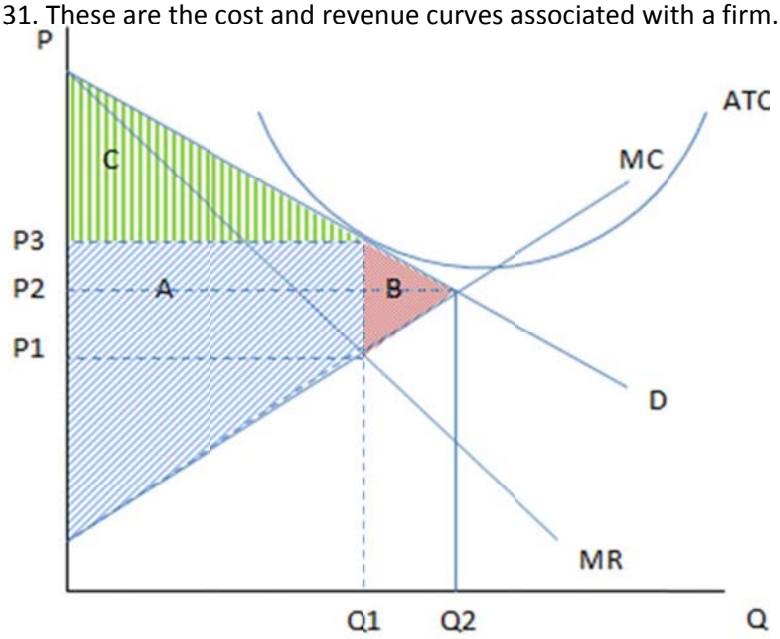
27. A production function represents:
A. the relationship between the cost of the inputs and the revenue generated by the outputs.
B. the relationship between the quantity of inputs and the quantity of outputs.
C. the relative values of the inputs and modes of production.
D. the relative costs of the inputs across various modes of production.

28. 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. 10
C. 2
D. 62

29. The cross-price elasticity of two goods is -2. This tells us that:
A. the two goods are inelastic.
B. the two goods are substitutes.
C. the two goods are complements.
D. the two goods are unrelated.

30. Given the shutdown rule, what does the firm's short-run supply curve look like?
A. It is the section of the MC curve that lies above the ATC curve.
B. It is the section of the AVC curve to the right of its minimum.
C. It is the section of the MC curve that lies above the AVC curve.
D. It is the section of the ATC curve to the right of its minimum.

31. These are the cost and revenue curves associated with a firm.



If the firm in the given graph were to produce Q1 and charge P3, the area C would represent:
A. profits.
B. deadweight loss.
C. producer surplus.
D. consumer surplus.

32. This table shows the demand and supply schedule of a good.

Price of Good	Q_{Demand}	Q_{Supply}
$0.00	50	25
$0.50	40	26
$1.00	35	28
$1.50	31	31
$2.00	28	35
$2.50	27	40

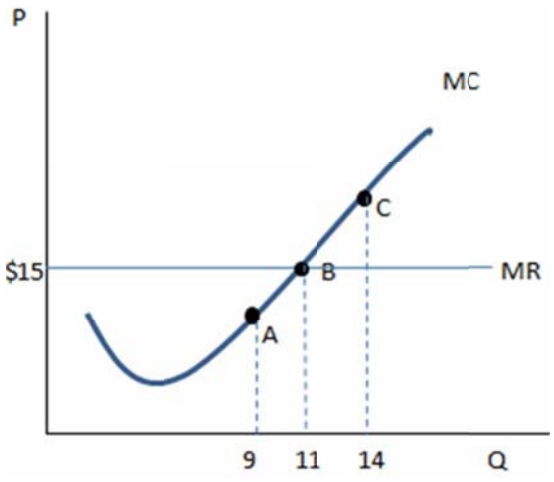
According to the table shown, at a price of $2.00:
A. quantity demanded is less than quantity supplied and a surplus exists.
B. quantity demanded exceeds quantity supplied and a surplus exists.
C. quantity demanded exceeds quantity supplied and a shortage exists.
D. quantity demanded is less than quantity supplied and a shortage exists.

33. Average total cost:
A. is minimized when it equals average variable cost.
B. increases when output levels are low, then decreases as output decreases.
C. decreases when output levels are low, then increases as output increases.
D. is maximized when it equals marginal cost.

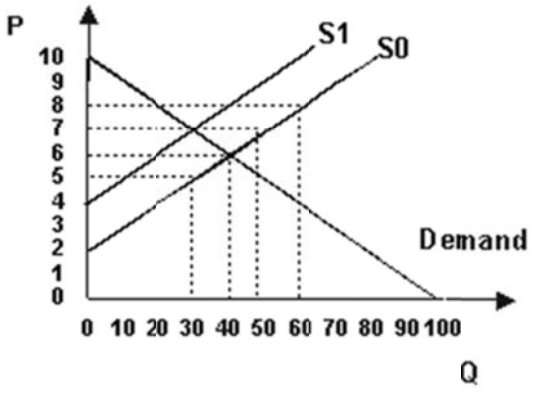
34. Monopolistic competition describes a market with:
A. many firms that sell goods and services that are standardized.
B. few firms that sell goods and services that are similar, but slightly different.
C. few firms that sell goods and services that are standardized.
D. many firms that sell goods and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

35. When government imposes a per unit tax on a product that has a downward-sloping demand curve and an upward-sloping supply curve, the price consumers pay for the product:
A. decreases by less than the amount of the per unit tax.
B. increases by less than the amount of the per unit tax.
C. increases by the amount of the per unit tax.
D. decreases by the amount of the per unit tax.

36.



According to the graph shown, at point C the firm is earning:
A. higher profits than at point B, and they should produce more.
B. fewer profits than at point B, and they should produce more.
C. higher profits than at point B, and they should produce less.
D. fewer profits than at point B, and they should produce less.



37.

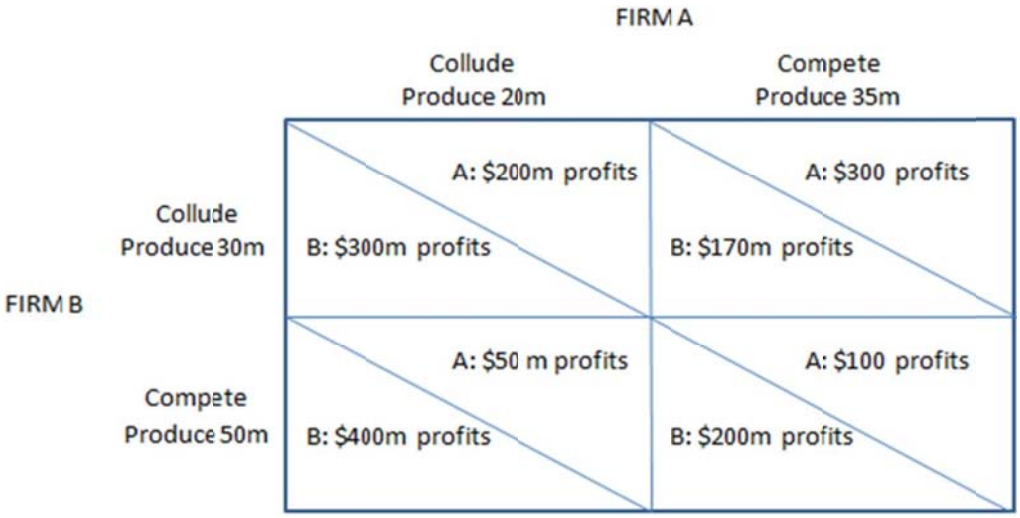
Refer to the graph shown. Assume that the market is initially in equilibrium at a price of $6 and a quantity of 40 units. In equilibrium, consumer surplus is equal to:

A. 160.
B. 40.
C. 120.
D. 80.

38. In the short run, monopolistically competitive firms behave like _____, but in the long run, the outcome is similar to that of _____.

A. perfectly competitive firms; monopolies
B. monopolies; oligopolies
C. oligopolies; perfectly competitive firms
D. monopolies; perfectly competitive firms

39. 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 B will compete and Firm A will collude.
B. both firms will compete.
C. both firms will collude and act like a joint monopolist.
D. Firm A will compete and Firm B will collude.

40. The good or service that firms in an oligopoly sell:
A. can be either standardized or have close substitutes.
B. is standardized.
C. has no close substitutes.
D. has close substitutes.

41. Returns to scale describes the long-run relationship between:
A. the quantity of input and the average total cost.
B. the quantity of output and the average variable cost.
C. the quantity of input and the average variable cost.
D. the quantity of output and average total cost.

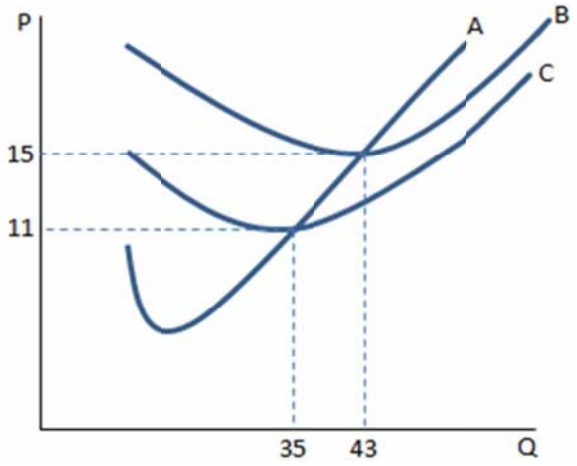
42. We say that goods are substitutes when they:
A. change a consumer's preferences.
B. are related goods that are consumed together, so that purchasing one will make a consumer more likely to purchase the other.
C. can replace something consumers typically purchase at a significantly lower price.
D. serve similar-enough purposes that a consumer might purchase one in place of the other.

43. For a monopoly producing any output level greater than one, the marginal revenue curve:
A. is minimized when total revenue is maximized.
B. lies above the average revenue curve.
C. lies below the demand curve.
D. is the same as the demand curve.

44. In the short run, a firm that finds itself earning a loss should compare the market price to which cost in order to determine how to minimize its losses?
A. Average variable costs
B. Average total costs
C. Marginal costs
D. Fixed costs

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

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

47. 

If a firm in a perfectly competitive market faces the curves in the graph shown and observes a market price of $16, the firm:
A. cannot make positive profits and should shut down in the short run.
B. can make positive profits by producing where MC = MR.
C. should continue to operate in the short run, but plan to exit in the long run.
D. can make positive profits by producing less than 43 units.

48. Which of the following is not required for the market equilibrium to be efficient?
A. The equilibrium price must be considered fair and just.
B. The supply curve must include all the costs of production.
C. Consumers and producers must be well informed.
D. The market must be perfectly competitive.

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

50. The monopolist's cost curves differ from those of a perfectly competitive firm in that:
A. average total cost and average variable costs are now equal.
B. average total cost is now minimized where it crosses marginal cost.
C. marginal cost is no longer equal to average variable cost.
D. The cost curves are the same for a firm regardless of market structure.

Econ 201 Final Exam Fall 2015 Key
Version #1

1. B

2. B

3. D

4. C

5. A

6. A

7. B

8. C

9. B

10. C

11. B

12. A

13. D

14. A

15. A

16. C

17. D

18. A

19. D

20. A

21. C

22. D

23. C

24. D

25. A

26. D

27. B

28. C

29. C

30. C

31. D

32. A

33. C

34. D

35. B

36. D

37. D

38. D

39. B

40. A

41. D

42. D

43. C

44. A

45. D

46. B

47. B

48. A

49. D

50. D