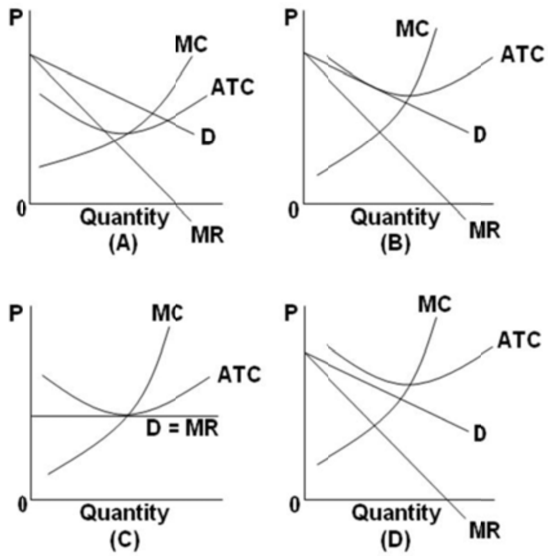
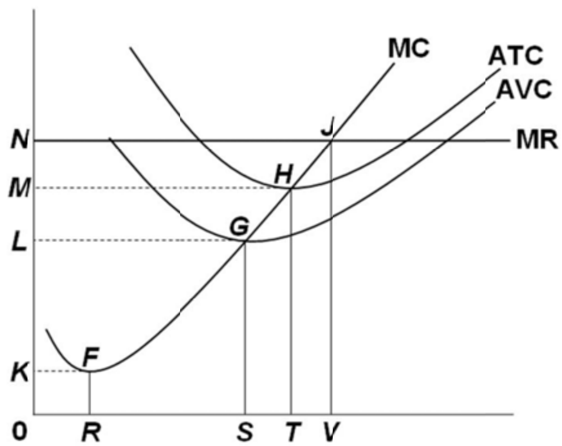
Exam 3 Practice Exam Version J

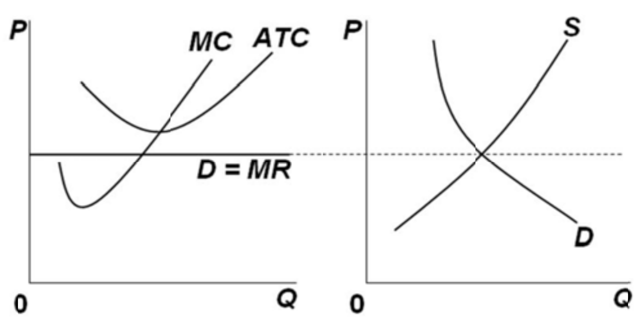


1.
Refer to the above graphs. The long-run equilibrium for a monopolistically competitive firm is represented by graph:
A. Panel B
B. Panel D
C. Panel A
D. Panel C

2. When compared with the perfectly competitive industry with identical costs of production, a monopolist will produce:
A. Less output and charge the same price
B. More output and charge the same price
C. Less output and charge a higher price
D. More output and charge a higher price



3.
Given the above graph, the competitive firm's supply curve is the:
A. MC curve above *F*
B. MC curve above *G*
C. MC curve above *J*
D. MC curve above *H*



4.
Refer to the above graphs for a competitive market in the short run. What will happen in the long run to industry supply and the equilibrium price P of the product?
A. *S* will decrease, *P* will decrease
B. *S* will increase, *P* will increase
C. *S* will decrease, *P* will increase
D. *S* will increase, *P* will decrease

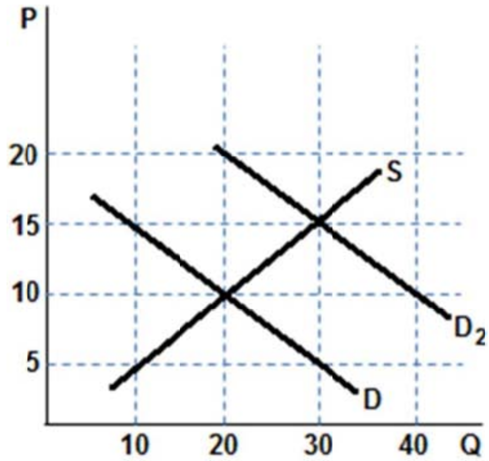
5. The welfare loss associated with the outcome in a competitive oligopoly is:
A. bigger than that of a monopoly.
B. smaller than that of a monopoly.
C. the same as that of a monopoly.
D. the same as that of colluding oligopolists.

6. The demand curve faced by a monopolistically competitive firm:
A. Will shift outward as new firms enter the industry
B. Is more elastic than the demand curve faced by the perfectly competitive firm
C. Is more elastic than the monopolist's demand curve
D. Is less elastic than the monopolist's demand curve

Output	Total Cost
0	$10
1	20
2	28
3	38
4	53
5	73
6	98

7.
Refer to the above table. The total fixed cost of production is:
A. $98
B. $20
C. $10
D. $0

8. A long-run supply curve that is downward-sloping indicates that the firms' ATC curves:
A. Shift down when the industry contracts
B. Do not shift when the industry contracts
C. Shift down when the industry expands
D. Shift up when the industry expands

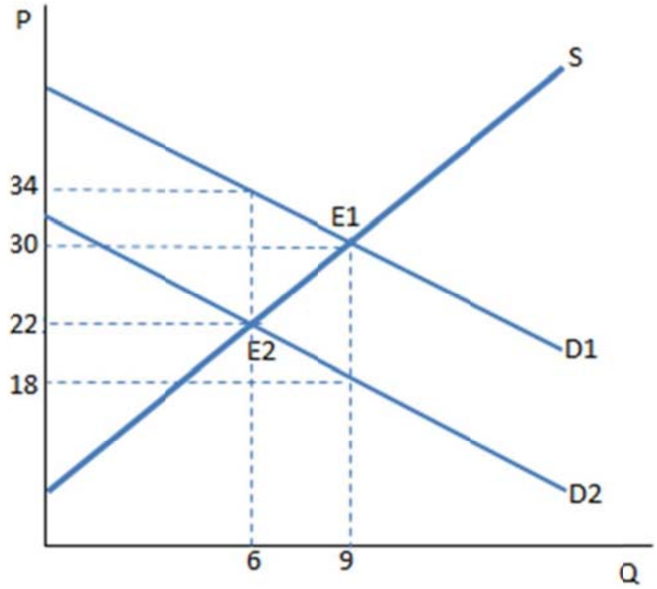
9. 

Assume the market in the graph shown was originally at an equilibrium with demand D and supply S. Suppose Demand shifts and becomes D_2. What might have caused such a shift?
A. The good became cheaper to produce.
B. The good became more popular.
C. People expect the price of this good to drop in the near future.
D. Substitutes for this good became less expensive.

10. 

This figure shows the payoffs involved when Sarah and Joe work on a school project together for a single grade. They both will enjoy a higher grade when more effort is put into the project, but they also get pleasure from goofing off and not working on the project. The payoffs can be thought of as the utility each would get from the effort they individually put forth and the grade they jointly receive.

The outcome of the game in the figure shown will be:
A. Joe and Sarah both put forth high effort.
B. Joe puts forth low effort and Sarah puts forth high effort.
C. Joe and Sarah both put forth low effort.
D. Joe puts forth high effort and Sarah puts forth low effort.



11.

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

A. The buyer

B. The seller

C. The incidence is equally shared between buyer and seller.

D. The government

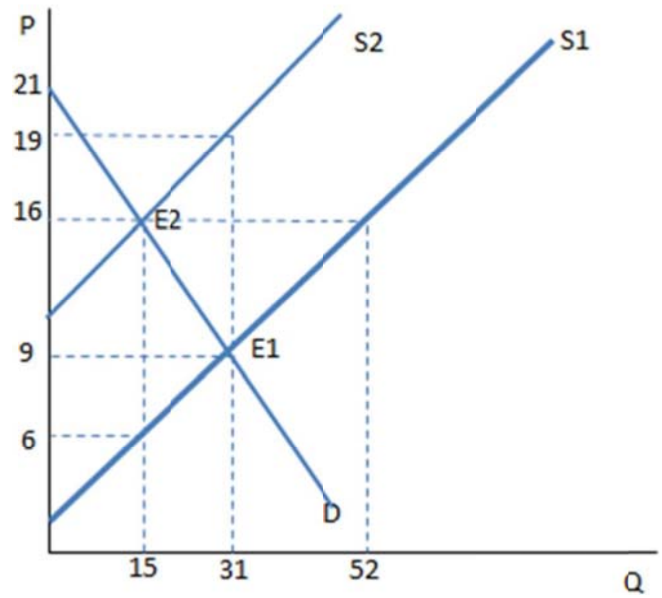
12. One major barrier to entry under pure monopoly arises from:

A. Ownership of essential resources

B. The price taking ability of the firm

C. The availability of close substitutes for a product

D. Diseconomies of scale



13.
The graph shown demonstrates a tax on sellers. Before the tax was imposed, the buyers purchased ____ units and paid _____ for each one.
A. 31; $9
B. 31; $19
C. 15; $16
D. 15; $6

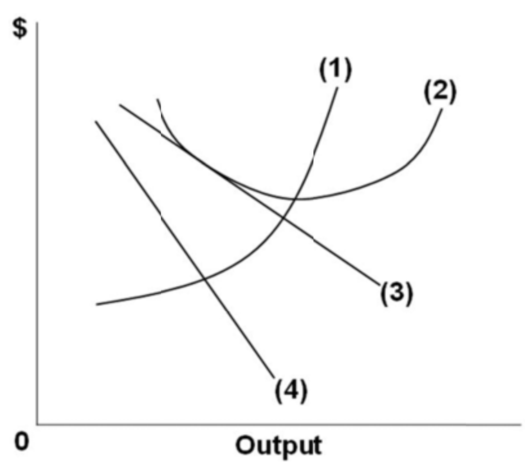
14. People frequently confuse facts with judgments that are based on beliefs. This means that people have trouble making the distinction between:
A. positive statements and normative statements.
B. macroeconomics and microeconomics.
C. political statements and non-political statements.
D. rational statements and irrational statements.

15. The question is based on the following table that provides information on the production of a product that requires one variable input.

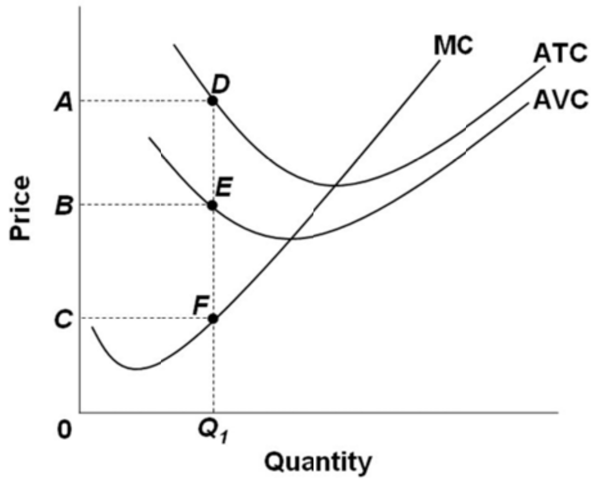
Input	Total Product
0	0
1	5
2	20
3	32
4	42
5	50
6	55
7	58
8	58
9	56

Refer to the above table. Diminishing marginal returns sets in with the addition of the:
A. Third unit of input
B. First unit of input
C. Fourth unit of input
D. Second unit of input

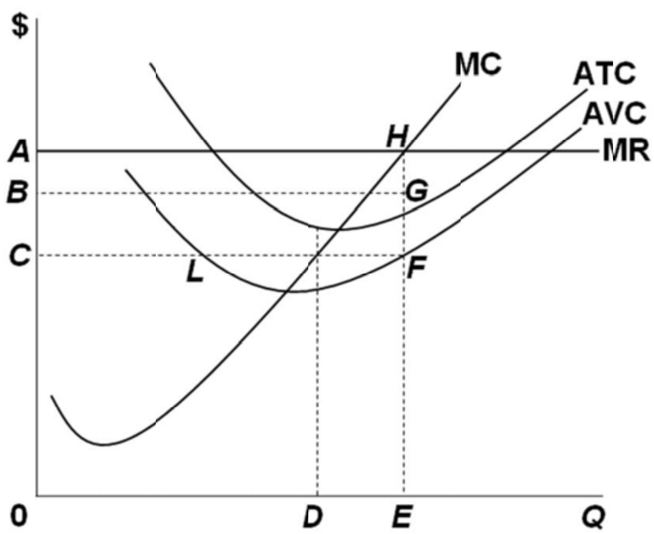
16. The marginal benefit derived from the consumption of a product is equal to:
A. the maximum price a consumer will pay for a specific unit of a product
B. the minimum price a consumer will pay for a specific unit of a product
C. the marginal utility derived from the consumption of a product
D. the total value placed on the consumption of a product
E. the total satisfaction derived from the consumption of a product



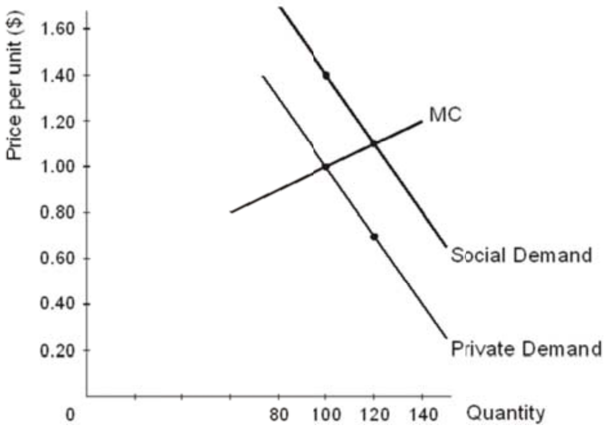
17. Refer to the above graph of a representative firm in monopolistic competition. If curve (2) represents ATC and line (3) represents demand, then curve (1) and line (4) would be:
A. MC and TR, respectively
B. TC and TR, respectively
C. AVC and MR, respectively
D. MC and MR, respectively



18.
Refer to the above graph. If the firm is producing at Q_1, the area $0BEQ_1$ represents:
A. Average variable costs
B. Total variable costs
C. Total fixed costs
D. Total costs



19.
Refer to the above graph. At the profit-maximizing level of output, the firm earns profits given by the area:
A. *0AHE*
B. *ACFH*
C. *BCFG*
D. *ABGH*



20.

Refer to the diagram above. Which of the following is best illustrated by the diagram?

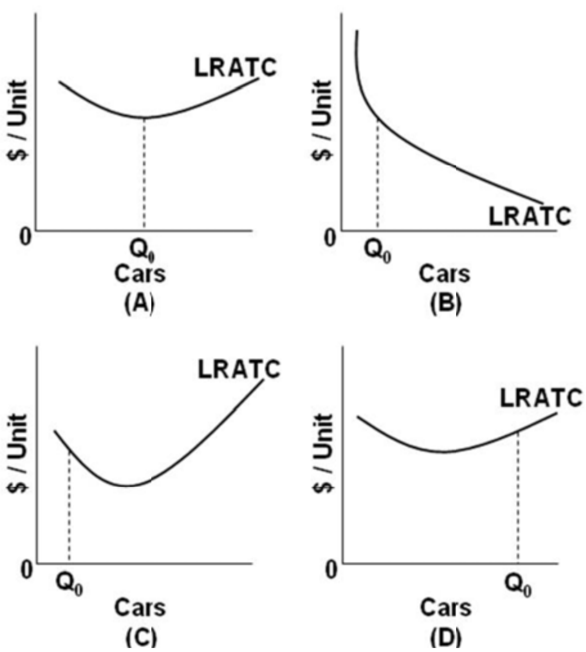
A. The production of cigarettes.

B. The production of fertilizers that pollute the nearby streams.

C. The consumption of cigarettes.

D. The consumption of education.

E. The consumption of illicit drugs.



21.

Refer to the above graphs. They show the long-run average total cost (LRATC) for cars. For which graph is the output level Q_0 at minimum efficient scale?

A. Graph *A*

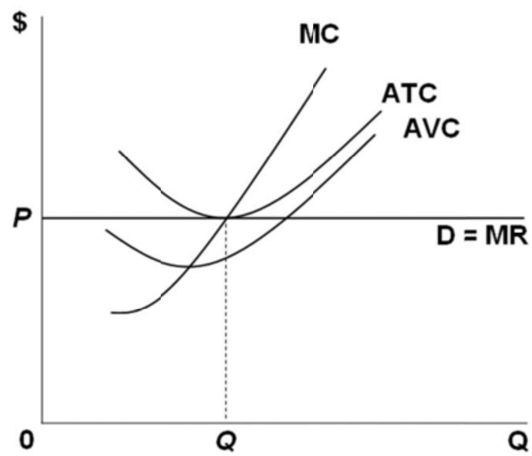
B. Graph *D*

C. Graph *B*

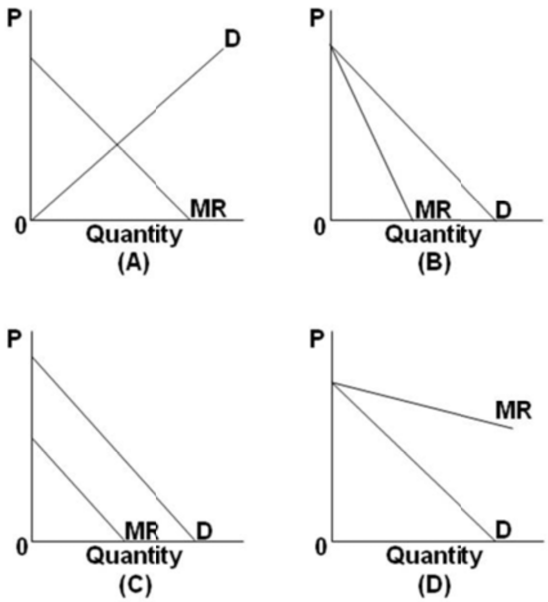
D. Graph *C*

22. Reaching a Nash equilibrium means that:
A. the players have reached a stable outcome where neither would wish to change his strategy once he finds out what the other player is doing.
B. a cooperative equilibrium has been reached.
C. the outcome will be positive-positive.
D. the players have failed to reach a stable outcome because one player will always wish to change his strategy once he finds out what the other player is doing.

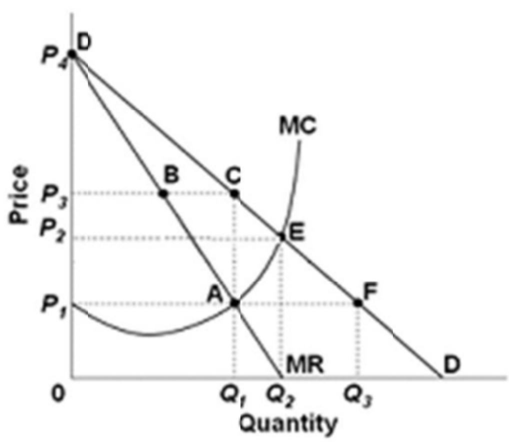
23. A price increase will cause an increase in revenue:
A. when demand is unit elastic.
B. when demand is perfectly elastic.
C. when the price effect outweighs the quantity effect.
D. when the quantity effect outweighs the price effect.



24.
Consider the perfectly competitive firm pictured above. At its short-run equilibrium point, the firm is earning:
A. Zero accounting profits
B. Zero normal profits
C. Zero economic profits
D. We can say nothing about this firm's profit or loss situation



25.
Which of the above shows the correct relationship between demand and marginal revenue?
A. Panel D
B. Panel A
C. Panel B
D. Panel C

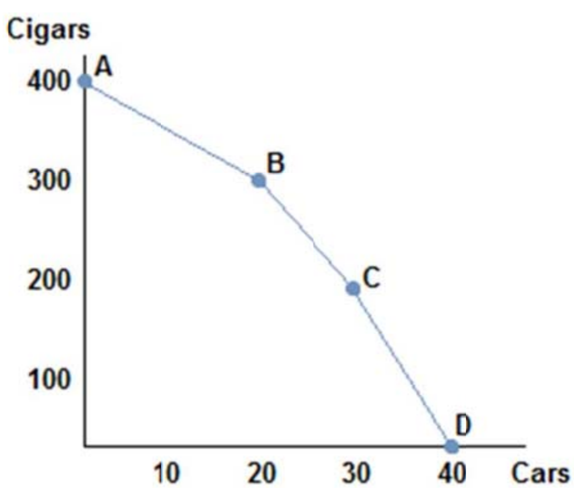


26.
Refer to the above graph for an industry. If the industry were served by a pure monopoly, the price and output quantity would be:
A. P_1, Q_3
B. P_1, Q_1
C. P_3, Q_1
D. P_2, Q_2

27. Opportunity Cost:
A. only includes explicit, out of pocket expenses.
B. is never provided in dollar values.
C. would not include the wages lost from working when deciding to take a vacation.
D. is the value of your next best alternative.

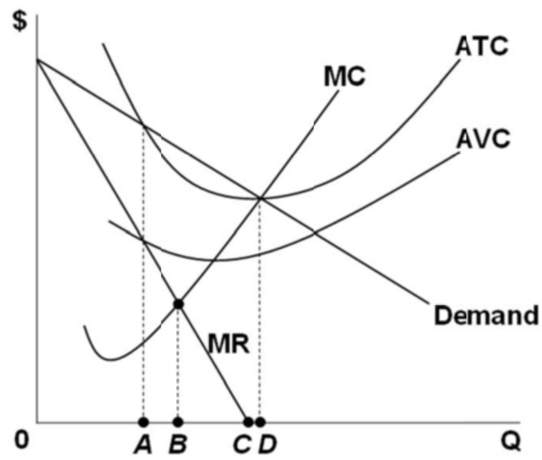
28. If the price of a fixed factor of production increases by 50 percent, what effect would this have on the marginal-cost schedule facing a firm?
A. Marginal cost would increase by 50 percent
B. Marginal cost would increase by less than 50 percent
C. Marginal cost would increase by more than 50 percent
D. None, because fixed costs do not affect marginal cost

29. 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 the amount of the per unit tax.
C. decreases by the amount of the per unit tax.
D. increases by less than the amount of the per unit tax.



30.

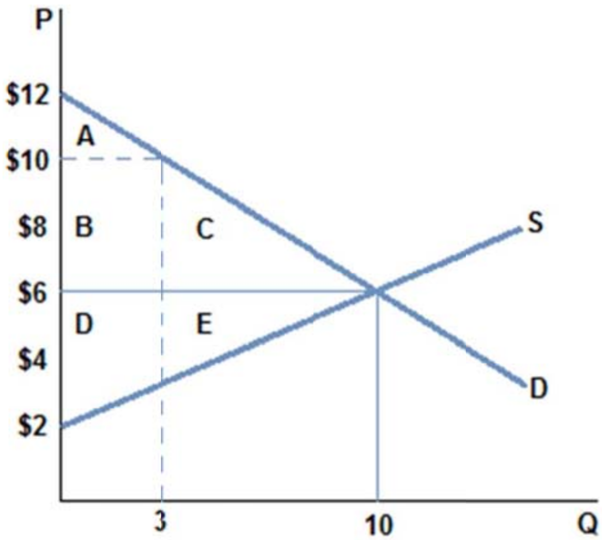
Consider the production possibilities frontier in the figure shown. As more and more cars are produced:
A. the opportunity cost of cars decreases.
B. the opportunity cost of cars stays the same.
C. the opportunity cost of cars decreases then increases.
D. the opportunity cost of cars increases.

31. 

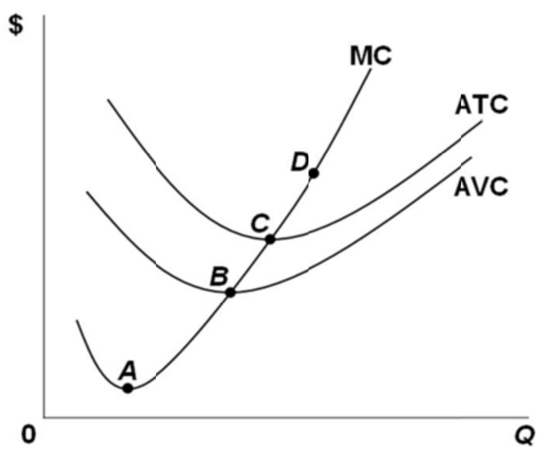
Refer to the graph above. At its equilibrium level of output, this monopolist earns:
A. Zero revenues
B. Negative economic profits
C. Zero economic profits
D. Positive economic profits

32. Which set of characteristics below best describes the basic features of monopolistic competition?
A. Easy entry, few firms, and standardized products
B. Barriers to entry, few firms, and differentiated products
C. Easy entry, many firms, and standardized products
D. Easy entry, many firms, and differentiated products

33. Which would be an implicit cost for a firm? The cost:
A. Of wages foregone by the owner of the firm
B. Paid for production supplies for the firm
C. Of worker wages and salaries for the firm
D. Paid for leasing a building for the firm



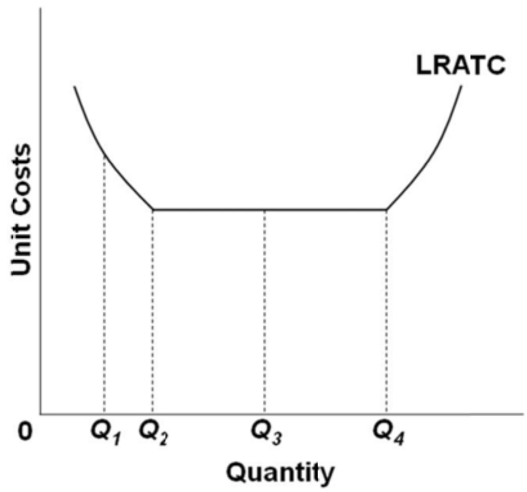
34.
According to the graph shown, if the market goes from equilibrium to having its price set at $10 then:
A. producer surplus rises by area B, but falls by area E.
B. producer surplus rises by area B, but falls by area D + E.
C. producer surplus rises by area B + C, but falls by area E.
D. producer surplus rises by area B + C, but falls by area D + E.



35.
Refer to the above graph. At which point is marginal product (MP) at its maximum?
A. Point *B*
B. Point *D*
C. Point *C*
D. Point *A*

36. Which case below best represents a case of price discrimination?
A. A professional baseball team pays two players with identical batting averages different salaries
B. An insurance company offers discounts to safe drivers
C. A major airline sells tickets to senior citizens at lower prices than to other passengers
D. A utility company charges less for electricity used during "off-peak" hours, when it does not have to operate its less-efficient generating plants

37. A paper mill discovers that burning old tires is a far cheaper way to get power than using coal, and they quickly adopt the new technology. We can assume which of the following will happen in the market for paper?
A. The demand for paper will increase.
B. The demand for paper will decrease.
C. The supply for paper will decrease.
D. The supply of paper will increase.



38.
Refer to the above graph. There are diseconomies of scale:
A. From Q_2 to Q_3
B. From Q_1 to Q_2
C. After Q_4
D. From Q_3 to Q_4

39. If marginal cost is below average variable cost:
A. Average total cost is increasing but average variable cost is decreasing
B. Average variable cost is less than average fixed cost
C. Both average total cost and average variable cost are increasing
D. Both average total cost and average variable cost are decreasing

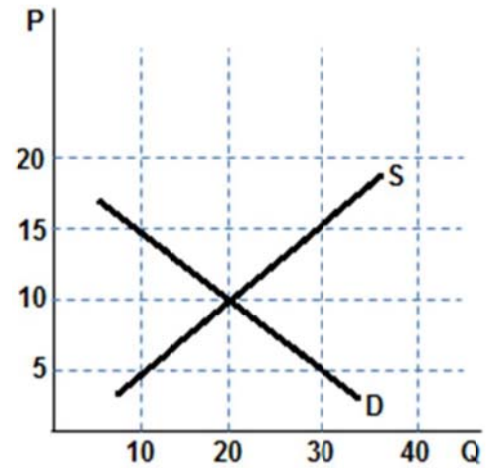
40. Which would contribute most to a firm experiencing "economies of scale"?
A. Rising long-run average costs
B. Specialization of production within a firm
C. Deterioration of information and control within a firm
D. The law of diminishing marginal returns

41. Resources are efficiently allocated when production occurs at that output at which:
A. *P* equals MC
B. *P* exceeds MR
C. *P* equals MR
D. *P* equals AVC

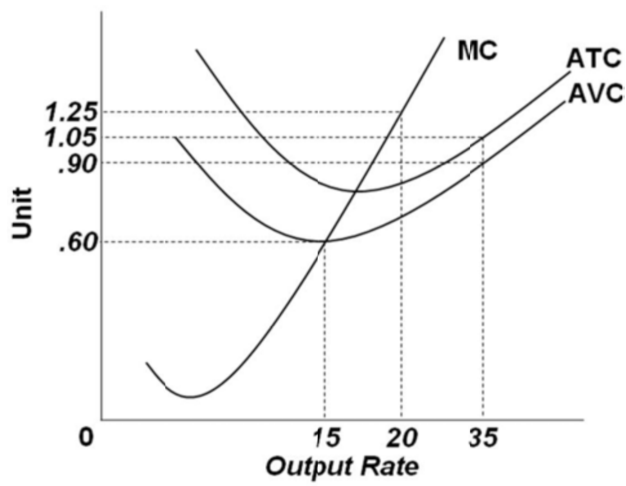
42. When a producer has an absolute advantage at producing a good, it means the producer:
A. has the ability to produce a good or service at a lower opportunity cost than others.
B. has no reason to trade with others.
C. can produce more of that good than others with the same number of workers.
D. is less efficient than other producers.

43. Behaving strategically means:
A. acting to achieve a goal by withholding key information from the person with whom an exchange is being made.
B. acting to achieve a goal by anticipating the interplay between your own and others' decisions.
C. evaluating the impact of your choices on an uninvolved third party.
D. evaluating decisions in which actors act in their own self-interest, but the interplay of those decisions does not exist.

44. In perfect competition, if the market price of the product is initially higher than the minimum average cost of the firms, then:
A. Some firms will exit the industry and the industry supply will increase
B. Other firms will enter the industry and the industry supply will increase
C. Other firms will enter the industry and the industry supply will decrease
D. Some firms will exit the industry and the industry supply will decrease



45.
According to the graph shown, at a price of $15, there is a:
A. surplus of 20.
B. shortage of 20.
C. shortage of 30.
D. shortage of 10.



46.
Refer to the above graph. It shows the cost curves for a competitive firm. If the market price falls to $0.55, the optimal output rate is:
A. 20
B. 15
C. 0
D. More than 20, but less than 35

47. If a firm is a price taker, then the demand curve for the firm's product is:
A. Perfectly inelastic
B. Equal to the total revenue curve
C. Perfectly elastic
D. Unit elastic

48. 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	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

Given the situation in the matrix shown, we can predict that Firm A's profits will be:

A. $300 million.
B. $200 million.
C. $100 million.
D. $50 million.

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

50. A perfectly competitive firm can be identified by the fact that:
A. There are other firms in the industry producing similar products
B. It is making only normal profits in the short run
C. Its average revenue equals its marginal revenue
D. It experiences diminishing marginal returns

Answer Key

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

27. D

28. D

29. D

30. D

31. D

32. D

33. A

34. A

35. D

36. C

37. D

38. C

39. D

40. B

41. A

42. C

43. B

44. B

45. A

46. C

47. C

48. C

49. D

50. C