Final Exam

1. Positive analysis:
A. weighs the fairness of a policy.
B. involves the formulation and testing of hypotheses.
C. involves value judgments concerning the desirability of alternative outcomes.
D. examines if the outcome is desirable.

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

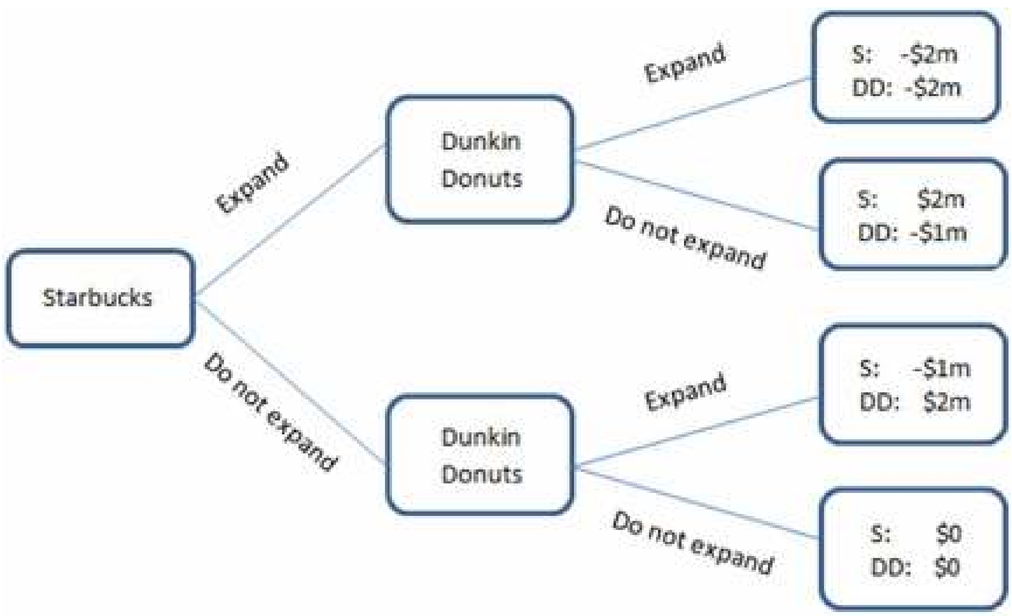
3. In an oligopoly, when the quantity effect outweighs the price effect:
A. keeping output constant and lowering price will increase the firm's profits.
B. keeping output constant and raising price will increase the firm's profits.
C. a decrease in output may increase the firm's profits.
D. an increase in output may increase the firm's profits.

4. Suppose that when the price of shoe laces goes from $1 to $2 per pair, production increases from 90 million pairs per year to 100 million pairs. Using the mid-point method, the price elasticity of supply would be:
A. 6.28.
B. 10.5 percent.
C. 66 percent.
D. 0.16.

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

6. If a firm produces nothing, then its:
A. total costs equal zero.
B. fixed costs equal zero.
C. variable costs equal zero.
D. All of these are true.

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



8.

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 predicts that Starbucks will earn profits of:
A. -$1 million.
B. -$2 million.
C. $0 million.
D. $2 million.

9. If a firm in a perfectly competitive market faces a market price of $7, and it decides to increase its production from 4,000 to 12,000 units, the firm's marginal revenue:
A. will rise once diminishing marginal product sets in.
B. will diminish once diminishing marginal product sets in.
C. will increase from $28,000 to $84,000.
D. will stay the same.

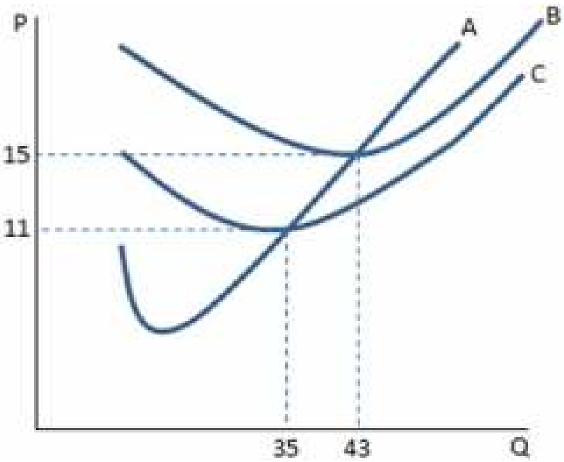
10. Bob got laid off six months ago. He used to go to the movies once a month, but he's only been twice since losing his job. This type of behavior can be measured using:
A. the price elasticity of demand.
B. the cross-price elasticity.
C. the price elasticity of supply.
D. the income elasticity of demand.

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

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

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

14. Private benefits are those benefits that accrue:
A. without compensation to someone other than the person who caused them.
B. directly to the decision maker of a market exchange.
C. to third parties without direct government intervention.
D. indirectly to the decision maker of a market exchange.

15. 

If a firm in a perfectly competitive market faces the cost curves in the graph shown and produces at the profit-maximizing level of output, which of the following is true?
A. A firm will lose money and shut down in the short run if price falls below $15.
B. A firm will lose money, but continue to operate in the short run if price is at least $15.
C. A firm will make positive profits any time the price is greater than $15.
D. All of these are true.

16. 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. Produce where MC = MR to minimize losses if P < AVC.
B. Produce where MC = MR to minimize losses if P > AVC.
C. Shut down if price is greater than average variable costs.
D. Shut down if total revenue is less than fixed costs.

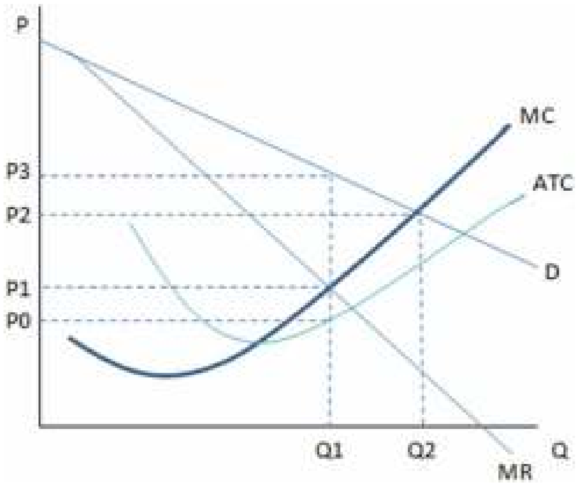
17.

Labor (# of employees)	Total Output
0	0
1	10
2	50
3	110
4	160
5	200
6	230
7	255
8	275
9	290
10	300
11	305

Assume the table shown is for a hat factory, and shows the total production of hats given various numbers of employees. Adding a seventh employee adds:
A. 20 hats to total production.
B. 255 hats to total production.
C. 275 hats total production.
D. 25 hats to total production.

18. The economic concept of scarcity refers to the fact that:
A. limited resources require economies to make choices among production alternatives.
B. the United States will always have a battle to fight hunger.
C. income must be redistributed through taxation in order to address income disparity.
D. resources are often wasted and shortages are often the result.

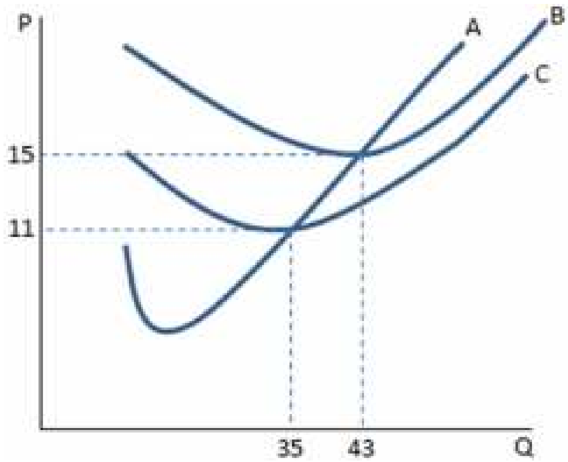
19. This graph shows the cost and revenue curves faced by a monopoly.



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

20. If the quantity effect outweighs the price effect of a price decrease, then:
A. the measured elasticity must be more than 1.
B. total revenue will rise.
C. the good is price elastic.
D. All of these are true.

21. A seller's willingness to sell:
A. is the maximum price that a seller is willing to accept in exchange for a good or service.
B. is their reserved minimum bid-price.
C. is the minimum 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.

22. 

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. can make positive profits by producing less than 43 units.
B. should continue to operate in the short run, but plan to exit in the long run.
C. can make positive profits by producing where MC = MR.
D. cannot make positive profits and should shut down in the short run.

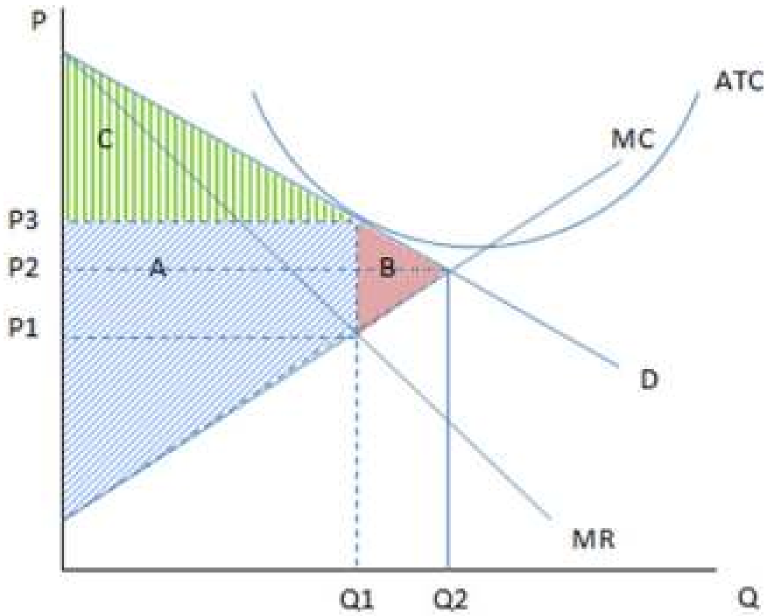
23. An effective price ceiling:
A. must be set above the equilibrium price.
B. can lead more goods to be produced in a market.
C. must be set below the equilibrium price.
D. must be set at the equilibrium price.

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

25. When a firm is on the portion of its long run ATC curve that slopes upward, it is experiencing:
A. constant returns to scale.
B. diseconomies of scale.
C. economies of scale.
D. Any of these is possible.

26. When one strategy is always the best for a player to choose, regardless of what other players do, it is called:
A. a dominant strategy.
B. collusion.
C. a Nash equilibrium.
D. the prisoner's dilemma.

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



Assuming the firm in the graph is producing Q1 and charging P3, it is likely showing the cost and revenue curves of a firm in:
A. the long run, and no firms will enter or exit.
B. the short run, and firms will leave this market.
C. the long run, and firms will enter this market.
D. the short run, and firms will enter this market.

28. 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.

29. A monopoly is:
A. a firm that is the producer of a good or service with just a few large competitors.
B. a firm that is the sole producer of a good or service with many close substitutes.
C. a firm that produces a good or service that is identical to many others sold in the market.
D. a firm that is the sole producer of a good or service with no close substitutes.

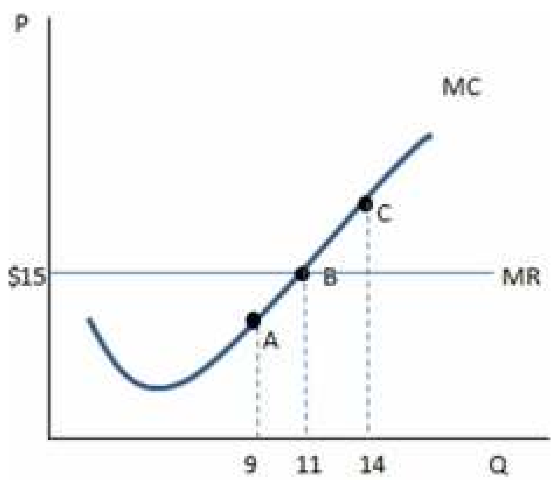
30. A price taker is a buyer or seller who:
A. has complete control over setting the market price.
B. can influence the market price.
C. has no control over setting the market price.
D. has the goal of maximizing market share, not profits.

31. Saturday afternoon you can either attend a street festival, work and earn $100, or study for your midterm exam. You flip a coin between the street festival and studying, but did not really consider working. The coin flip determined that you would stay home and study. The opportunity cost of the time spent studying includes:
A. None of these.
B. the benefit that could have been received at the street festival.
C. earning a high score on your midterm.
D. the loss of $100 worth of wages and going to the street festival.

32. Suppose Larry's Lariats produced 25,000 lassos and sold each for $10. What was the total revenue for the company?
A. $2,500
B. $25,000
C. $2,500,000
D. $250,000

33. A Pigovian tax imposed on consumers ___________ the price, and if the same tax were imposed on producers, it would _____________ the price.
A. decreases; increase
B. increases; decrease
C. increases; increase
D. decreases; decrease

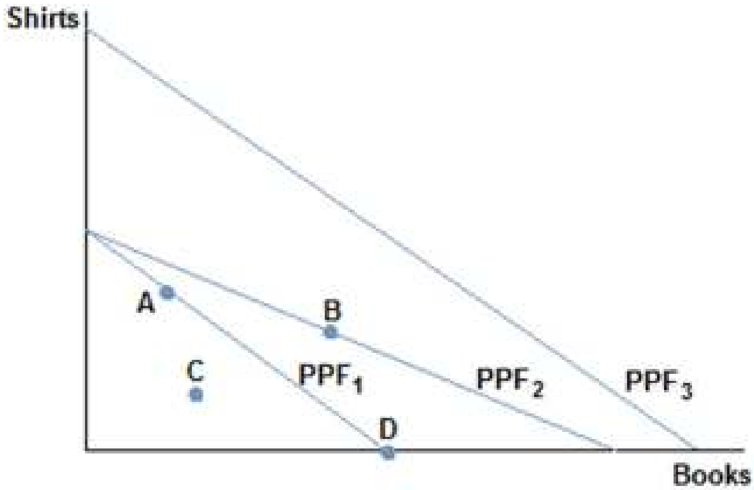
34. A market in which a single firm can produce, at a lower cost than multiple firms, the entire quantity of output demanded is called:
A. diseconomies of scale.
B. a natural monopoly.
C. government intervention.
D. price gouging.

35. 

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

36. The short run:
A. means at least one input cannot change.
B. All of these are true.
C. lasts until the firm can change all inputs.
D. means the firm is fixed in scale.

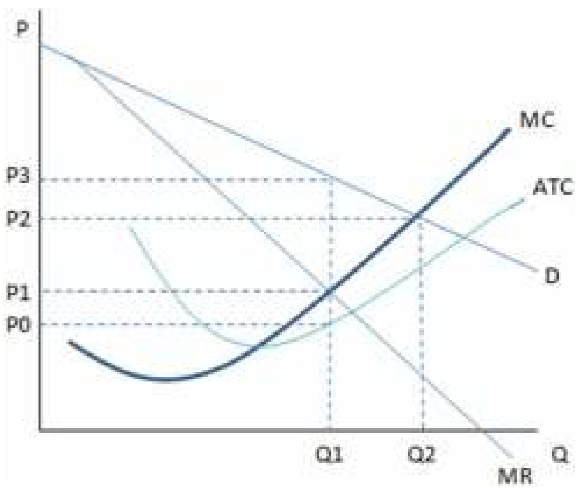
37. Average variable costs:
A. decrease when marginal product rises, and increase when marginal product declines.
B. decrease when output declines, and increase when output declines.
C. increase when output declines, and decrease when output rises.
D. increase when marginal product rises, and decrease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



38.

Consider a society facing the production possibilities curves in the figure shown. What is the most likely cause of a society moving from PPF_1 to PPF_3?
A. Better printing press technology
B. More workers
C. A desire to read more books
D. Better sewing technology

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



According to the graph shown, if this were a perfectly competitive market, the outcome would be:
A. Q1, P1.
B. Q2, P2.
C. The graph is of a monopoly, and therefore there is no way to determine a perfectly competitive outcome.
D. Q1, P3.

40. 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 right.
B. the exit of competing firms will shift the firm's demand to the left.
C. the exit of competing firms will cause price to rise, but not affect the firm's demand curve.
D. the exit of competing firms will cause price to drop, but not affect the firm's demand curve.

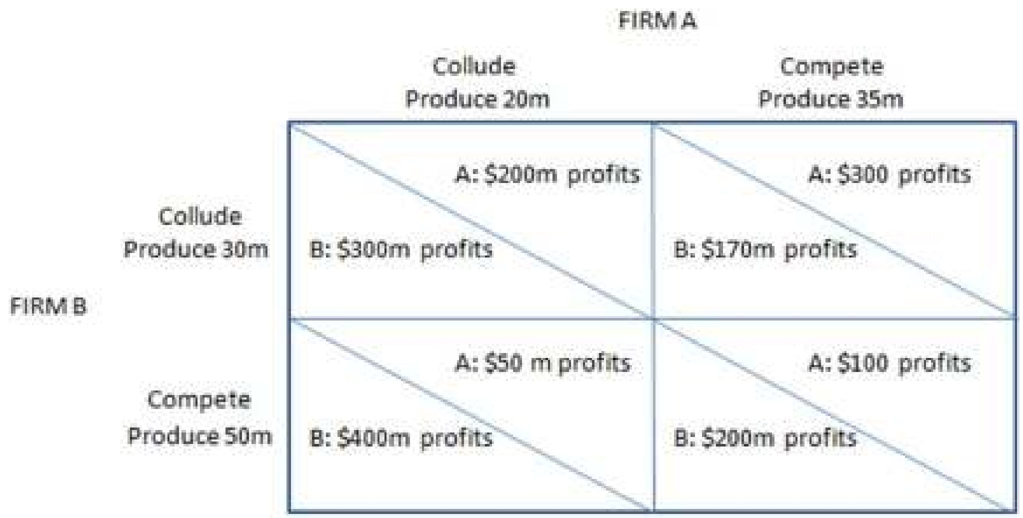
41. An increase in the price of ice cream is likely to cause:
A. an inward shift of the demand curve.
B. an outward shift of the demand curve.
C. a rotation of the demand curve around the price-point change.
D. a movement along the demand curve.

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

43. The practice of charging customers different prices for the same good is called:
A. customer discrimination.
B. price marking.
C. price discrimination.
D. group discounting.

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

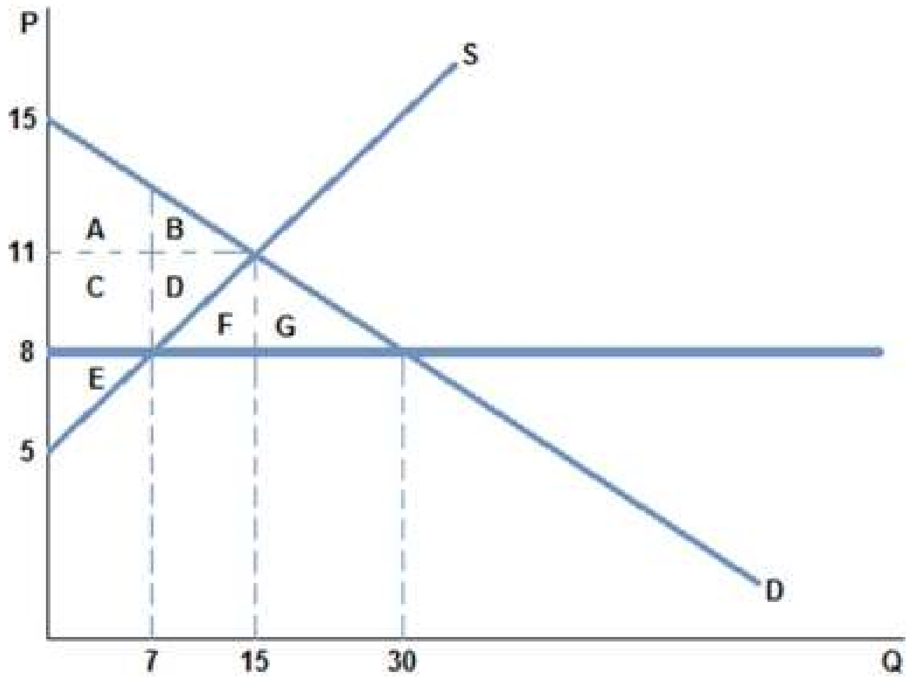
45. This prisoner's dilemma game shows the payoffs associated with two firms, A and B, in an oligopoly and their choices to either collude with one another or not.



Given the situation in the matrix shown, we can predict that Firm A's profits will be:
A. $200 million.
B. $50 million.
C. $100 million.
D. $300 million.

46. The principle of diminishing marginal product states:
A. the marginal product of an input decreases as the quantity of the input decreases.
B. Any of these could display the principle of diminishing marginal product.
C. the marginal product of an input decreases as the quantity of the input increases.
D. the marginal product of an input increases as the quantity of the input increases.

47. Total revenues increase as output increases along sections of the demand curve that are:
A. downward sloping.
B. price elastic.
C. upward sloping.
D. price inelastic.

48. 

After a price ceiling of $8 is placed on the market in the graph shown, which area represents total surplus?
A. A + C + E
B. A + B + C + D + E
C. A + B + C + D + E + F + G
D. A + B + C + D + E + F

49. Firms in perfectly competitive markets who wish to maximize profits should produce where:
A. marginal revenue and average revenue are equal.
B. marginal cost and average cost are equal.
C. marginal revenue and market price are equal.
D. marginal revenue and marginal cost are equal.

50. When firms are faced with repeating games, such as the prisoner's dilemma, they:
A. are more likely to collude.
B. must consider the long-run effects of their current decision.
C. All of these statements are true.
D. face different incentives.

Final Exam Econ 201 Winter 2014 Key
Version #1

1. B
2. A
3. D
4. D
5. A
6. C
7. D
8. D
9. D
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11. D
12. C
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16. B
17. D
18. A
19. B
20. D
21. C
22. C
23. C
24. A
25. B
26. A
27. A
28. A
29. D

30. C

31. B

32. D

33. C

34. B

35. A

36. B

37. A

38. B

39. B

40. A

41. D

42. D

43. C

44. D

45. C

46. C

47. B

48. A

49. D

50. C