Winter 2015 Final Exam

Version #1

1. 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.

2. If the price of a cup of coffee increases by 50 percent, the quantity demanded decreases by 50 percent. The price elasticity of demand is:
A. elastic.
B. inelastic.
C. unit elastic.
D. zero.

3. The marginal product is:

A. ΔQ

B. $\Delta Q/\Delta L$

C. $\Delta Q/L$

D. $Q/\Delta L$

4. A sequential game is one where:
A. there is never a winner if players act rationally.
B. players take turns making moves/decisions.
C. players make their moves/decision at the same time.
D. players act together to achieve a common goal.

5. Suppose that the Widget Corporation produces nothing. Which one of the following best describes the firm's costs?
A. Total fixed, total variable, and total costs are zero since nothing is being produced.
B. Total variable costs are zero but total fixed costs may be positive, so total costs may be positive.
C. Total fixed and total variable costs may be positive, so total cost may be positive.
D. Total fixed costs are zero but total variable costs may be positive, so total costs may be positive.

6. The monopolist's cost curves differ from those of a perfectly competitive firm in that the:
A. The cost curves are the same for a firm regardless of market structure.
B. average total cost curve is not necessarily minimized where it crosses marginal cost.
C. average variable cost in no longer equal to marginal cost.
D. marginal cost curve is downward sloping instead of flat.

7. 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. Fixed costs
B. Average variable costs
C. Marginal costs
D. Average total costs

8. What does MES (minimum efficient scale) refer to?
A. The biggest-size plant that is capable of achieving economies of scale.
B. The marginal efficient size of a firm.
C. The biggest-size plant that is capable of achieving diseconomies of scale.
D. The smallest-size plant capable of achieving the lowest long-run average cost of production.

9. In the case of either an external cost or an external benefit, the invisible hand fails to generate the efficient outcome because
A. too much is produced.
B. buyers and sellers only take their self interest into account.
C. too little is produced.
D. the environment is treated as a common property.
E. the model is not capable of incorporating externalities.

10. This table shows individual demand schedules for a market.

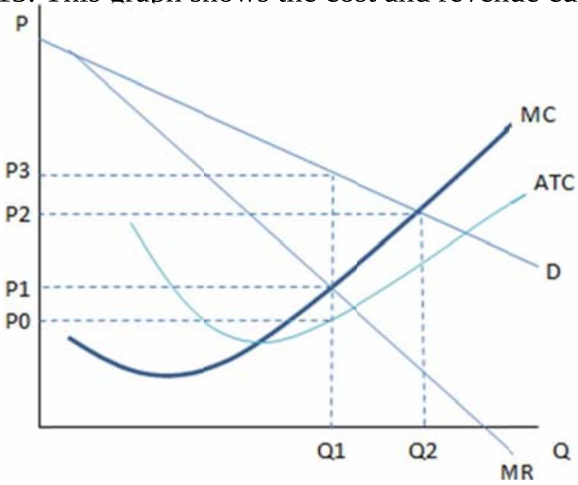
Price of Good	Barney's Demand	Betty's Demand
$0.00	20	23
$0.50	18	18
$1.00	16	11
$1.50	14	8
$2.00	12	6
$2.50	10	5

According to the table shown, what can be said of Betty and Barney's demand for this good?
A. Betty's demand follows the law of demand, but Barney's does not.
B. Betty's and Barney's demand both follow the law of demand.
C. Neither Betty's nor Barney's demand follows the law of demand.
D. Barney's demand follows the law of demand, but Betty's does not.

11. An industry that has a four-firm concentration ratio that is small suggests that it is:
A. a monopoly.
B. monopolistically competitive.
C. an oligopoly.
D. perfectly competitive.

12. Consider a market that is in equilibrium. If it experiences both a decrease in demand and an increase in supply, what can be said of the new equilibrium?
A. The equilibrium price and quantity will both fall.
B. The equilibrium price will definitely fall, while the equilibrium quantity cannot be predicted.
C. The equilibrium price and quantity will both rise.
D. The equilibrium quantity will definitely fall, while the equilibrium price cannot be predicted.

13. 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 monopolist would charge P3 and the perfectly competitive firm would charge P1.

B. the monopoly creates deadweight loss.

C. the perfectly competitive firm would produce Q1 units.

D. the perfectly competitive firm would lose money in this industry.

14. Consider the market for ride-on lawn mowers and the recent increases in the price of oil. The recent increase in the price of oil makes it more expensive to manufacture ride-on lawn mowers. An increase in the price of oil also makes it more expensive to run a ride-on mower. What is likely to happen to equilibrium price and quantity of lawn mowers as a result in the changing price of oil?

A. Supply and demand will both decrease, increasing equilibrium price and having an indeterminate effect on quantity.

B. Supply and demand will both increase, increasing equilibrium quantity and having an indeterminate effect on price.

C. Supply and demand will both decrease, decreasing equilibrium quantity and having an indeterminate effect on price.

D. Supply and demand will both increase, increasing equilibrium price and having an indeterminate effect on quantity.

15. A negative externality in production occurs, when:

A. the social costs of production are greater than the private costs of production.

B. social benefits are less than private benefits.

C. social damage costs on consumers are positive.

D. the social benefits of production are less than the private benefits of production.

16. An increase in price and an indeterminate change in quantity are consistent with a:
A. leftward shift in supply and no shift in demand.
B. leftward shift in supply and a rightward shift in demand.
C. rightward shift in supply and a leftward shift in demand.
D. leftward shift in demand and no shift in supply.

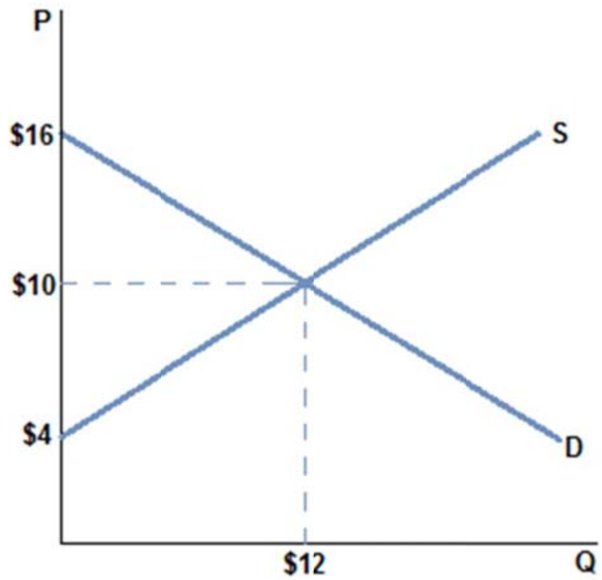
17. 

According to the figure shown, if Nike charges a high price, then Adidas should:
A. give an ultimatum.
B. charge a low price.
C. charge a high price.
D. leave the market.

18. If the demand curve is less elastic than the supply curve, then:
A. the sellers will bear a greater tax burden than buyers.
B. the sellers will bear a greater tax incidence.
C. the buyers will bear a smaller tax burden than sellers.
D. the buyers will bear a greater tax incidence.

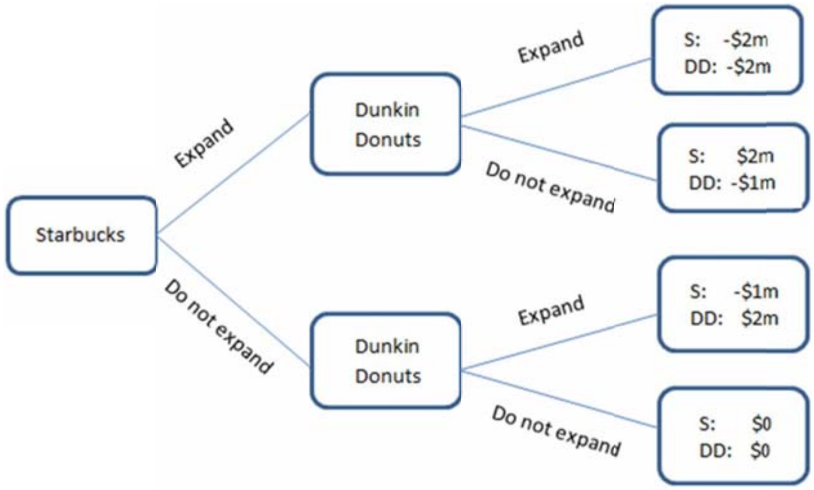
19. The welfare loss associated with the outcome in a competitive oligopoly is:
A. the same as that of a monopoly.
B. bigger than that of a monopoly.
C. smaller than that of a monopoly.
D. the same as that of colluding oligopolists.

20. When demand increases in a perfectly competitive market, in the short run _______________, and in the long run _______________.
A. quantity supplied increases; supply decreases
B. quantity supplied decreases; supply decreases
C. quantity supplied increases; supply increases
D. quantity supplied decreases; supply increases

21. 

Assume the market was in equilibrium in the graph shown. If the market price gets set to $14, which of the following is true?
A. Some producers gain surplus, but total surplus falls.
B. Some producers lose surplus, but total surplus rises.
C. Some consumers gain surplus, but total surplus falls.
D. Some consumers lose surplus, but total surplus rises.

22.



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. -$2 million.
B. $2 million.
C. -$1 million.
D. $0 million.

23. 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 likely rise, but it cannot be determined by how much.
B. will increase from $2,400 to $4,400.
C. will decrease from $4,400 to $2,400.
D. will stay the same at $8.

24. An increase in the number of firms in a perfectly competitive market causes:
A. an increase in each firm's supply curve.
B. a decrease in the market supply curve.
C. an increase in the market supply curve.
D. a movement along the market supply curve.

25. When a monopolist chooses the level of output where marginal cost equals marginal revenue:
A. the price equals average revenue.
B. the price equals marginal revenue.
C. the price is lower than average revenue.
D. the price is lower than marginal revenue.

26. The economic way of thinking is best described as:
A. translate a problem to a graph and solve for an equilibrium.
B. create a simple model, empirically test it, and use it to guide your analysis.
C. create a simple model and use it to guide your analysis.
D. analyze all aspects of a problem and use that analysis to guide your thinking about the problem

27. Which one of the following expressions is incorrect?
A. AFC = ATC + AVC
B. AVC = ATC - AFC
C. AFC = ATC - AVC
D. ATC = AVC + AFC

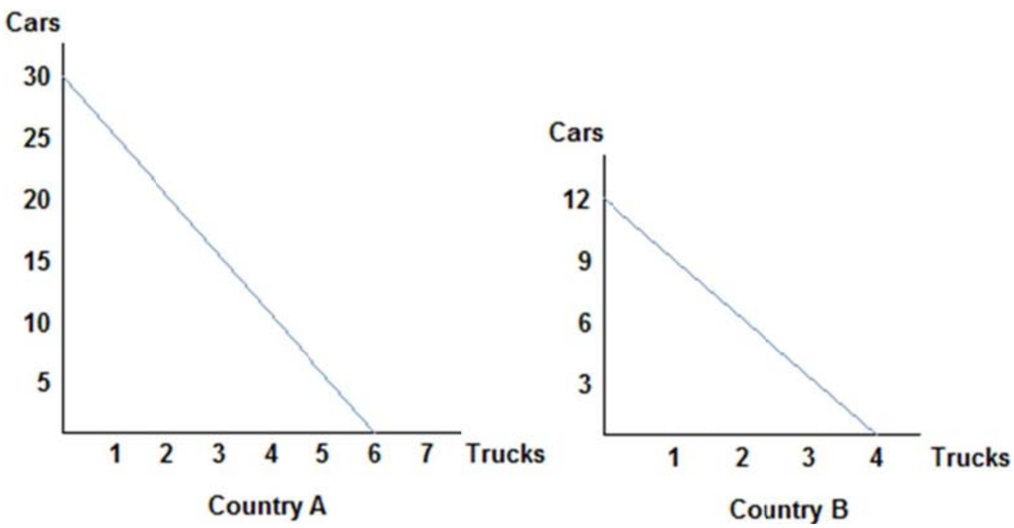
28. A feature that is unique to the perfectly competitive firm is that:
A. the price of the product equals the marginal cost of producing an extra unit in equilibrium.
B. product price always equals average total cost.
C. the marginal cost of producing an extra unit of the good equals the average total cost of production.
D. economic profits will always be earned in the long run.

29. When monopolistic competition is compared to perfect competition, the monopolistically competitive industry produces:
A. a greater variety of products but at a lower per unit cost.
B. a smaller variety of products but at a lower per unit cost.
C. a greater variety of products but at a higher per unit cost.
D. a smaller variety of products but at a higher per unit cost.

30. A perfectly competitive market is one in which:
A. uninformed, price-taking buyers and sellers easily trade a standardized good or service.
B. uninformed, price-making buyers and seller easily trade a standardized good or service.
C. fully informed, price-taking buyers and sellers easily trade a standardized good or service.
D. fully informed, price-making buyers and seller easily trade a standardized good or service.

31. When the XYZ Company is operating at the minimum point on its ATC curve, then:
A. MC is also at its minimum.
B. AVC must be at the minimum point.
C. ATC is equal to MC.
D. AFC is also at its minimum.

32.



Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Considering both country's production possibilities frontiers, we know that:
A. they will both agree to terms of trade of one truck to eight cars.
B. they will both agree to terms of trade of one truck to four cars.
C. they will both agree to terms of trade of one truck to six cars.
D. they will both agree to terms of trade of one truck to two cars.

33. When you observe a firm's average total and average variable cost curves, the vertical distance between the curves, at a particular point represents:
A. the total variable cost of producing that level of output.
B. the total fixed cost of producing that level of output.
C. the average fixed cost of producing that level of output.
D. the marginal cost of producing an extra unit of output.

34. Suppose the market for coffee is in equilibrium at a price of $5 per pound. This means:
A. all producers who want to sell coffee are pleased.
B. all remaining producers require less than $5 to produce coffee.
C. all consumers who want to buy coffee are satisfied.
D. all remaining consumers value a pound of coffee at less than $5.

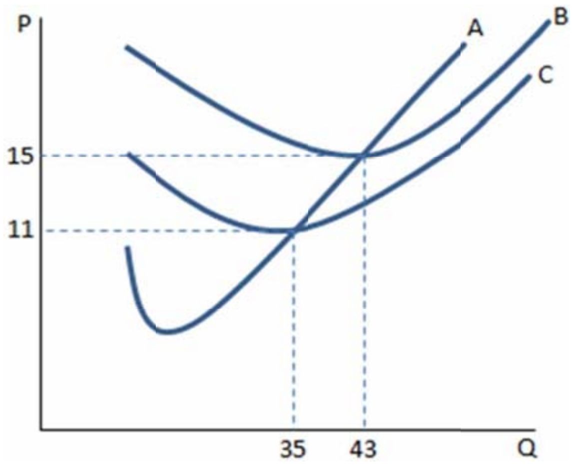
35. Given the shutdown rule, what does the firm's short-run supply curve look like?
A. It is the section of the MC that lies above the ATC curve.
B. It is the section of the ATC curve to the right of its minimum.
C. It is the section of the MC that lies above the AVC curve.
D. It is the section of the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

36. A linear demand curve:
A. has a constant slope and a constant elasticity, but they need not equal one another.
B. has a constant slope, but changing elasticity.
C. has a changing slope, but constant elasticity.
D. has a measured slope that is the same as the measured elasticity.

37. 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. a Nash equilibrium.
C. collusion.
D. the prisoner's dilemma.

38. What is the term for a market structure in which there are many firms who sell a differentiated product and have some control over the price of the products they sell?
A. Monopoly.
B. Duopoly.
C. Monopolistic competition.
D. Oligopoly.

39. When a firm experiences decreasing returns to scale:
A. it should expand its scale of operation because production efficiency can be increased.
B. proportionate increases in all inputs change output by the same amount.
C. the long-run average cost curve decreases as output expands.
D. the long-run average cost curve rises as output expands.

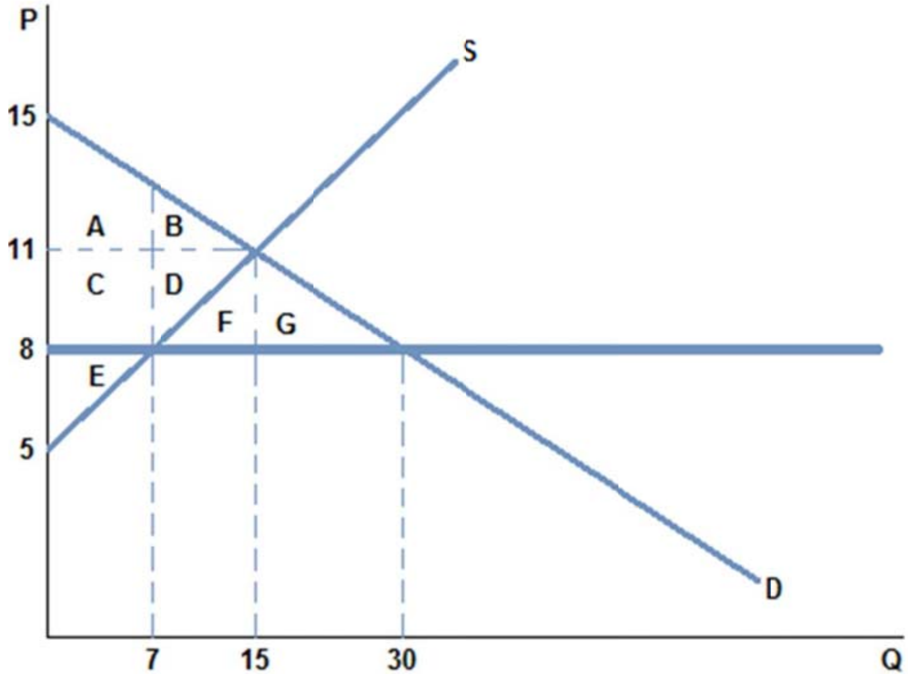
40. 

Of the curves displayed in graph shown, what does curve C most likely represent?
A. Marginal cost
B. Average variable cost
C. Average total cost
D. Marginal revenue

41. Suppose all firms in a perfectly competitive industry are experiencing economic losses to varying degrees. One can predict that:
A. market price will rise.
B. market price will decrease.
C. market demand will decrease.
D. market supply will increase.

42. The government should set the price for natural monopolies at their:
A. average total cost.
B. average variable cost.
C. marginal cost.
D. fixed cost.

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

44. 

If a price ceiling of $8 were placed in the market in the graph shown:
A. a surplus of 23 would occur.
B. None of these is true.
C. a surplus of 7 would occur.
D. a surplus of 15 would occur.

45. In the short run, as output is increased more variable inputs are added to a given amount of fixed inputs. After some point, we expect:
A. marginal cost to continue its decline throughout all ranges of output.
B. essentially no change in average fixed costs.
C. average total cost to stop rising and begin falling.
D. average variable cost to stop falling and to begin rising.

46. A college student decides to spend the afternoon watching three movies rented from Red Box. The cost of each movie is $1. The student was willing to pay $4 to rent each of the first two movies and $2 to rent the third movie. What was the marginal benefit received by the student when renting the 2nd movie?
A. $1
B. $2
C. $4
D. $8

47. A firm's production function is best described as:
A. measuring the cost of producing various levels of output, given input prices and input requirements.
B. illustrating the relationship between inputs and outputs.
C. describing short-run production techniques but not long-run.
D. measuring the opportunity cost of using inputs in one production technique rather than another.

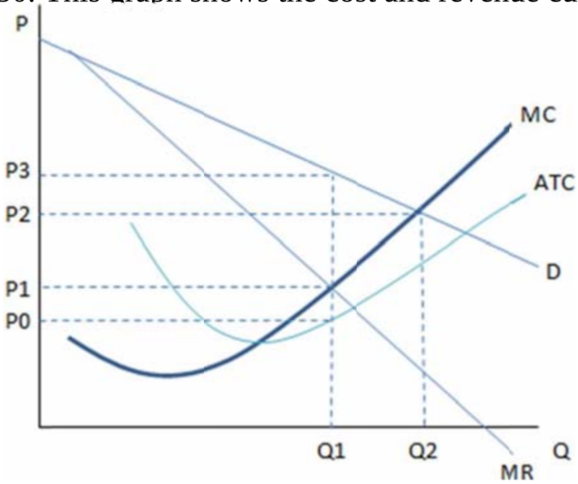
48. Suppose that wood is a primary input in the production of furniture. If the price of wood increases, we can expect that:
A. the marginal, average variable, and average total cost curves will shift upward, but the average fixed cost curve will not shift.
B. the marginal, average variable, and average fixed cost curves will shift upward, but the average total will remain stationary.
C. the average total and average variable cost curves will shift upward, but the marginal and average fixed curves will shift down.
D. the marginal and average variable cost curves will shift upward, but not the average total or the average fixed cost curves.

49. Consider the payoff matrix below facing two criminals.

	A: Confess	A: Not Confess
B: Confess	A: 20 yrs, B: 20 yrs	A: 50 yrs, B: 2 yrs
B: Not Confess	A: 2 yrs, B: 50 yrs	A: 10 yrs, B: 10 yrs

Their options are either to confess or not to confess. Given this information:
A. A has a dominant strategy but B does not.
B. B has a dominant strategy but A does not.
C. Neither A nor B has a dominant strategy.
D. Both A and B have dominant strategies.

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

Winter 2015 Final Exam Key

Version #1

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

30. C
31. C
32. B
33. C
34. D
35. C
36. B
37. B
38. C
39. D
40. B
41. A
42. A
43. B
44. B
45. D
46. C
47. B
48. A
49. D
50. D

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