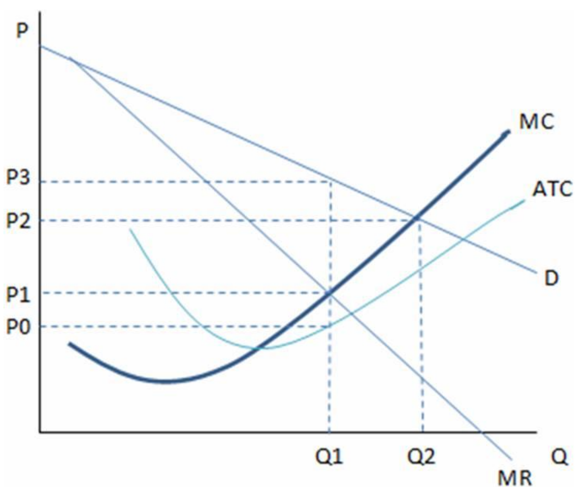
Final Exam Fall 2013

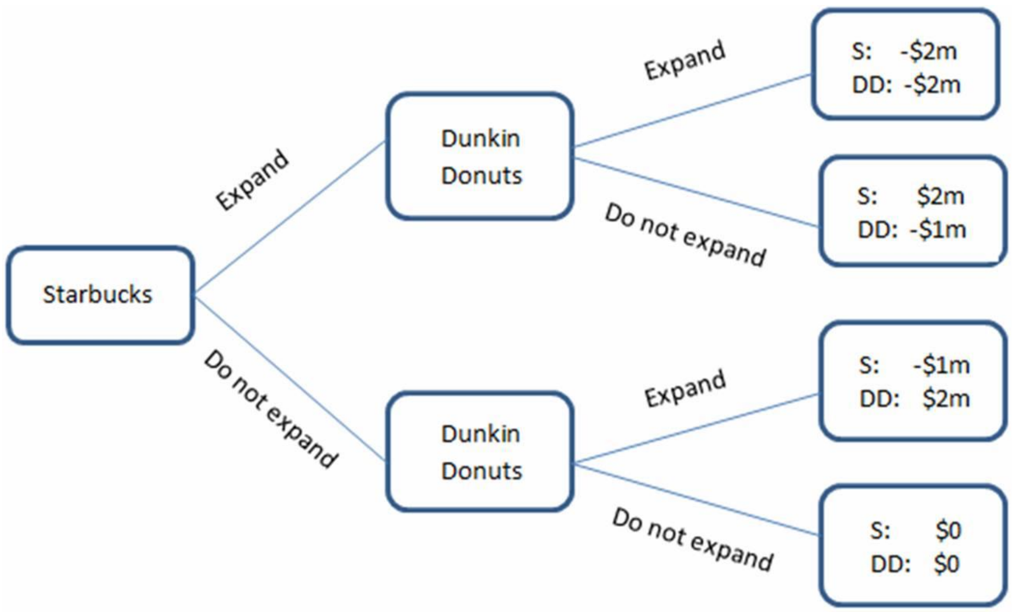
1. If a firm in a perfectly competitive market faces a market price of $7, and it decides to increase its production from 4,000 to 12,000 units, the firm's marginal revenue:
A. will rise once diminishing marginal product sets in.
B. will stay the same.
C. will increase from $28,000 to $84,000.
D. will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

2. If a monopolistically competitive firm's demand curve is shifting left, it will stop shifting when:
A. the price is equal to the firm's average total cost.
B. the price is equal to the firm's marginal cost.
C. there is no deadweight loss.
D. the price is the same as what a perfectly competitive firm's price would be.

3. 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, P3.
B. The graph is of a monopoly, and therefore there is no way to determine a perfectly competitive outcome.
C. Q2, P2.
D. Q1, P1.

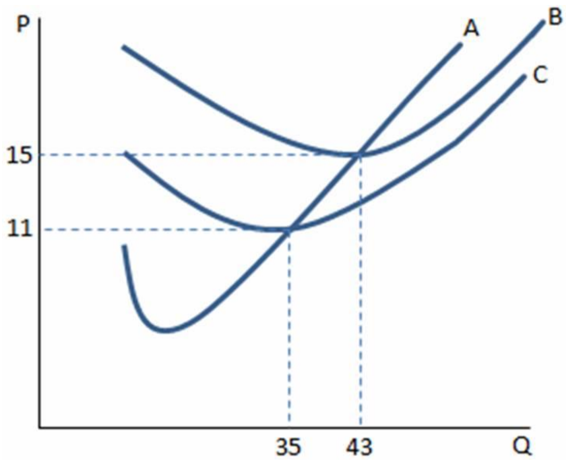


4.

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 will be:
A. neither Starbucks nor Dunkin Donuts will expand.
B. Starbucks and Dunkin Donuts will both expand.
C. Starbucks will not expand and Dunkin Donuts will.
D. Starbucks will expand and Dunkin Donuts will not.

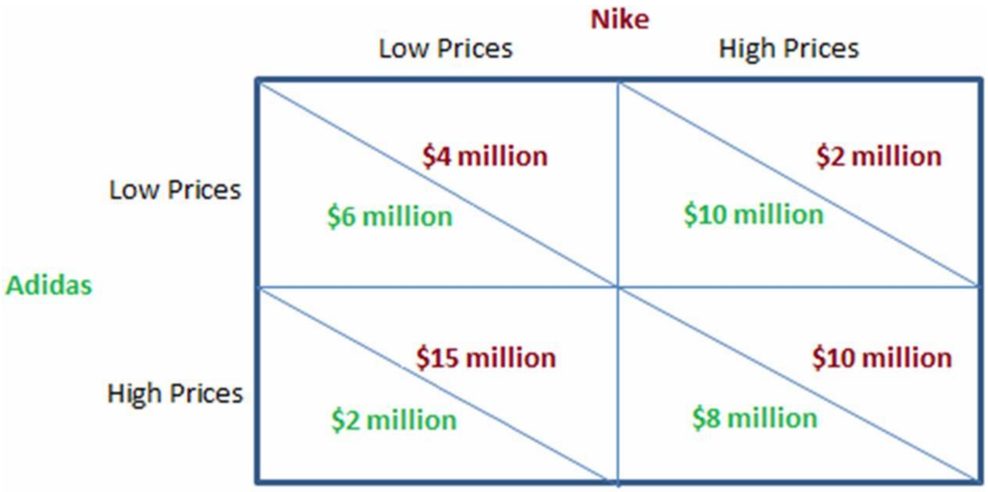
5. A perfectly competitive market is one in which:
A. uninformed, price-taking buyers and sellers easily trade a standardized good or service.
B. fully informed, price-taking buyers and sellers easily trade a standardized good or service.
C. fully informed, price-making buyers and seller easily trade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

6. 

If a firm in a perfectly competitive market faces the cost curves in the graph shown and observes a market price of $13, the firm:
A. can make positive profits by producing more than 35 units.
B. can make positive profits by producing where MC = MR.
C. cannot make positive profits and should shut down in the short run.
D. should continue to operate in the short run, but plan to exit in the long run.

7. If a firm decreases production, then its:
A. total costs increase.
B. All of these are true.
C. variable costs rise.
D. fixed costs stay the same.

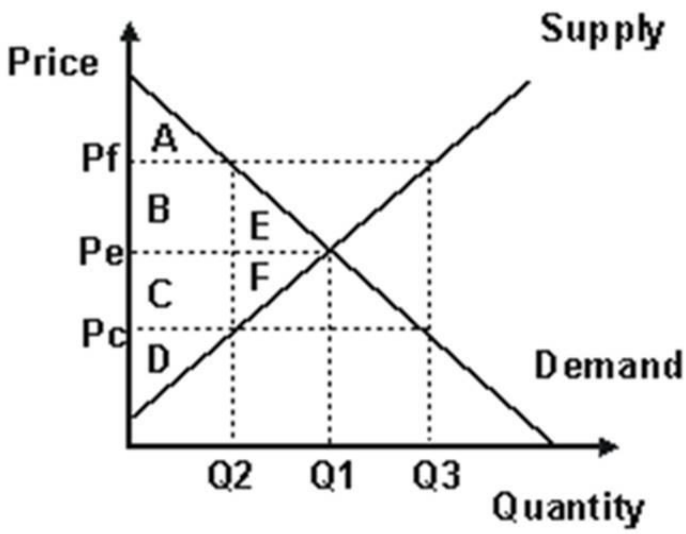
8. Total revenues increase as output increases along sections of the demand curve that are:
A. price inelastic.
B. downward sloping.
C. upward sloping.
D. price elastic.

9. 

The outcome of the game in the figure shown will be:
A. Nike and Adidas both charge a high price.
B. Nike charges a low price, and Adidas charges a high price.
C. Nike charges a high price, and Adidas charges a low price.
D. Nike and Adidas both charge a low price.

10. A natural monopoly is a market in which a single firm:
A. can produce, at a lower cost than multiple firms, the entire quantity of output demanded.
B. gains market share over time through aggressive tactics.
C. owns a key resource or input into the production of the good.
D. is protected from competition through government legislation.

11. The demand curve facing the monopolistically competitive firm is:
A. steeper than that of a monopolist.
B. flatter than that of a monopolist.
C. flatter than that of a perfectly competitive firm.
D. steeper than that of their competition.



12.

Refer to the graph shown. An effective price floor at P_f causes consumer surplus to:
A. change from areas C + D + F to areas B + C + D.
B. fall from areas A + B + E to area A.
C. fall from areas C + D + F to area D.
D. change from areas A + B + E to areas A + B + C.

13. If the producers bear a larger portion of tax incidence than the buyers, which of the following must be true?
A. They are not as business savvy as the buyers.
B. Their supply curve must be more elastic than the buyers demand curve.
C. Their supply curve must be more inelastic than the buyers demand curve.
D. They face a very inelastic demand.

14. For a monopolist, total revenues:
A. decrease as output increases.
B. increase and then decrease as output increases.
C. decrease and then increase as output increases.
D. increase as output increases.

15. Competition between oligopolists drives:
A. price and profits down to below the monopoly level.
B. some firms out until the market becomes a monopoly.
C. collusion to happen frequently.
D. price and profits down to the perfect competition level.

16. This table shows price and quantity produced for a single firm in a perfectly competitive market.

Price	Quantity
$10	23
$10	24
$10	25
$10	26

Given the information in the table shown, what is the marginal revenue when 25 units are produced?
A. $20
B. $250
C. $10
D. $25

17. If the government's provision of a subsidy is too small to counteract the entire effect of a positive externality, the:
A. total surplus will be maximized, but the outcome will be inefficient.
B. quantity consumed will still be too low.
C. total surplus will not be maximized, but the outcome will be efficient.
D. quantity consumed will still be too high.

18. When a perfectly competitive firm increases output, total revenue:
A. increases, because there is no price effect.
B. decreases, because there is no price effect.
C. increases, because there is no quantity effect.
D. decreases, because there is no quantity effect.

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

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

21. If a good has an income elasticity of 0.18, which of the following can be said about it?
A. It is an inferior good, and a necessity.
B. It is an inferior good, and a luxury.
C. It is a normal good, and a luxury good.
D. It is a normal good, and a necessity.

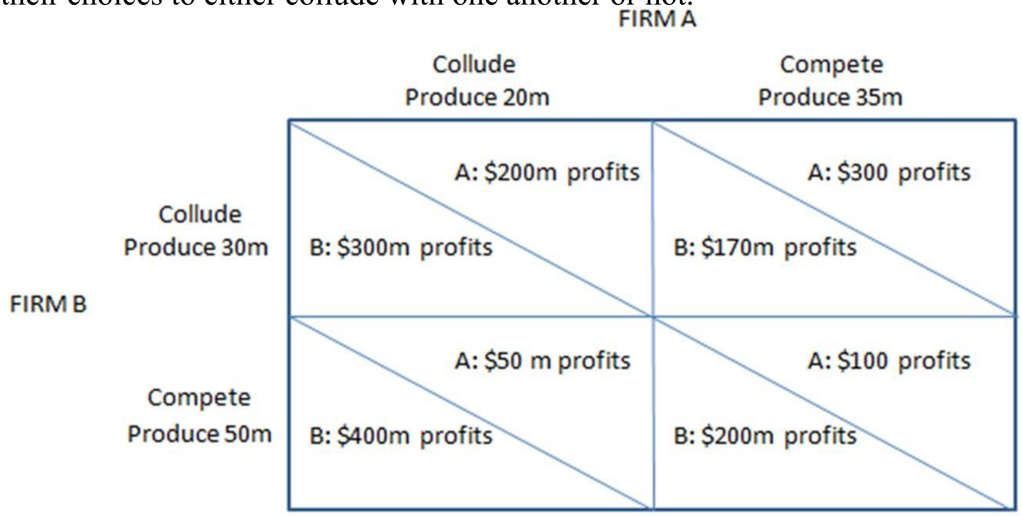
22. This table shows the total costs for various levels of output for a firm operating in a perfectly competitive market.

Price	Quantity	TC
$50	0	$10.00
$50	1	$20.00
$50	2	$27.50
$50	3	$77.50
$50	4	$147.50
$50	5	$250.00

According to the table shown, the firm's profit:
A. is maximized at 3 units of output.
B. is not maximized at any level of output given.
C. is maximized at 4 units of output.
D. is maximized at 5 units of output.

23. The outcome of a competitive oligopoly:
A. is more efficient than that of a perfectly competitive outcome.
B. is less efficient than that of colluding oligopolists.
C. is less efficient than that of a monopolist.
D. is more efficient than that of a monopolist.

24. 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.

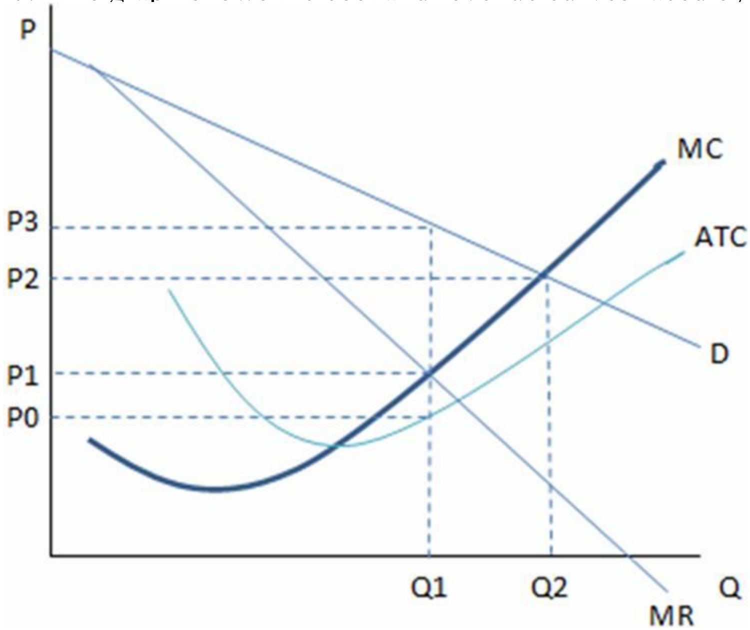


Given the payoffs in the matrix shown, Firm B:
A. should compete if Firm A colludes and collude if Firm A competes.
B. should compete if Firm A competes and collude if Firm A colludes.
C. should always choose to collude, regardless of Firm A's actions.
D. should always choose to compete, regardless of Firm A's actions.

25. All externalities:
A. are harmful to society and create costs external to the decision maker.
B. create either a cost or benefit to a person other than the person who caused it.
C. are addressed by the government through taxation.
D. are beneficial to society and create benefits external to the decision maker.

26. If the price of cereal changes by 10 percent, we observe a 2 percent change in the quantity of milk demanded. The cross-price elasticity of these goods is:
A. -0.2.
B. -5.
C. 5.
D. 0.2.

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



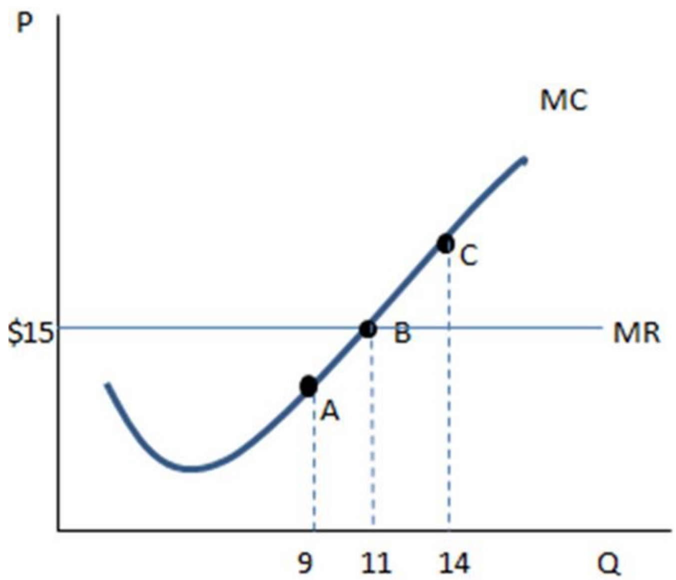
According to the graph shown, the profit being earned by this monopolist is:
A. (P3 - P0)/Q1
B. (P1 - P0) x Q1
C. (P3 - P0) x Q1
D. (P3 - P1) x Q1

28. If we were to compare the monopolistically competitive firm's long run outcome to that of a perfectly competitive one, we would conclude that the monopolistically competitive firm:
A. charges less.
B. earns greater profits.
C. creates more total surplus.
D. produces less.

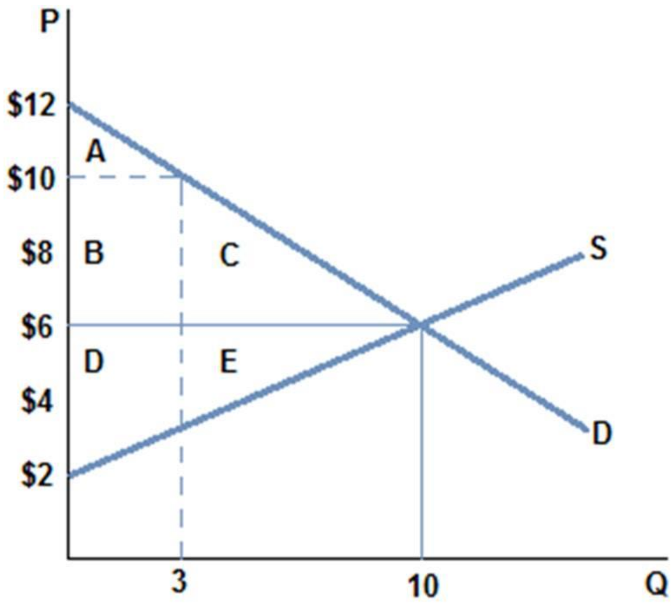
29. Alex is playing his music at full volume in his dorm room. The other people living on his floor are enjoying his music, but Alex does not know or care. Alex's music playing is an example of a:
A. normative externality.
B. positive externality.
C. Pareto externality.
D. negative externality.

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

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

32. 

According to the graph shown, producing 9 units earns profits that are:
A. higher than output of 11 units, and the firm should decrease production.
B. higher than output of 11 units, and the firm should increase production.
C. lower than output of 11 units, and the firm should increase production.
D. lower than output of 11 units, and the firm should decrease production.

33. 

According to the graph shown, if the market goes from equilibrium to having its price set at $10 then:
A. area B gets transferred from consumer to producer.
B. area (B + C) gets transferred from consumer to producer.
C. area B gets transferred from producer to consumer.
D. area (B + C) gets transferred from producer to consumer.

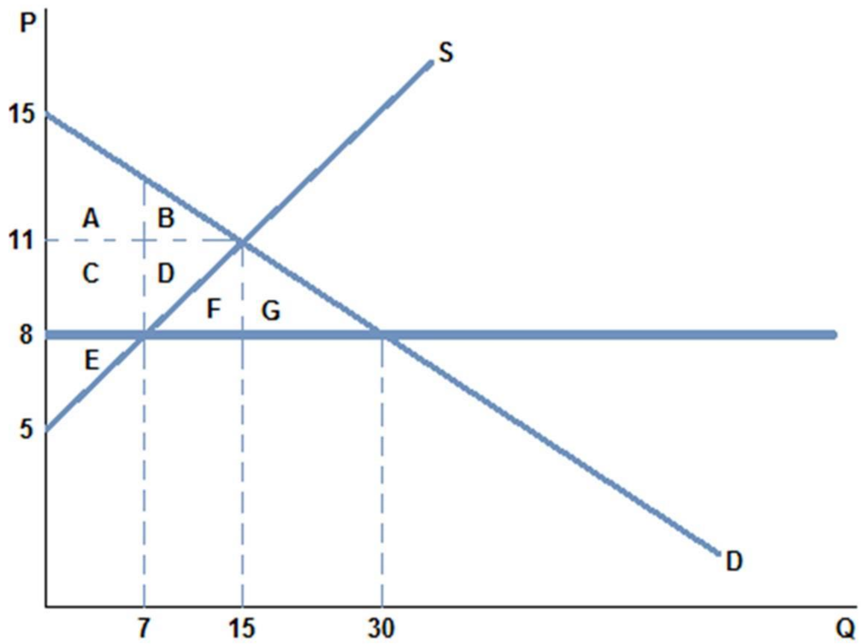
34. When demand increases in a perfectly competitive market, in the short run ___________________, and in the long run ___________________.
A. prices increase; supply increases
B. prices increase; prices stay permanently higher
C. quantity supplied increases; prices increase
D. quantity supplied decreases;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

35. The prices of related goods matters when determining supply because:
A. it affects the opportunity cost of production.
B. it affects the competition.
C. it affects whether or not your good will sell.
D. it affects the availability of substitute goods.

36. In order to support the sugar cane producers, the government fixed a price above the market equilibrium price. This policy:
A. will benefit the sugar cane consumers.
B. will reduce efficiency in the sugar cane market.
C. is an example of a price ceiling.
D. will not change the quantity traded.
E. will only benefit marginal producers.

37. In a perfectly competitive market, producers:
A. are able to sell as much as they want without affecting the market price.
B. can influence the price upward by restricting output.
C. often undercut the competition's price and force firms to leave the market.
D. None of these is true of perfectly competitive markets.

38.



If the intended aim of the price ceiling set in the graph shown was a net increase in the well being of consumers, then positive analysis would have us consider:
A. whether the surplus transferred from producers to consumers is larger than the consumer surplus lost to deadweight loss.
B. whether the surplus transferred from consumers to producers is larger than the consumer surplus lost to deadweight loss.
C. whether the producer surplus lost due to lower prices is greater than the producer surplus lost due to fewer transactions taking place.
D. whether the producer surplus lost to deadweight loss is greater than the producer surplus gained from a higher price.

39. 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 increase, 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 decrease, increasing equilibrium price and having an indeterminate effect on quantity.

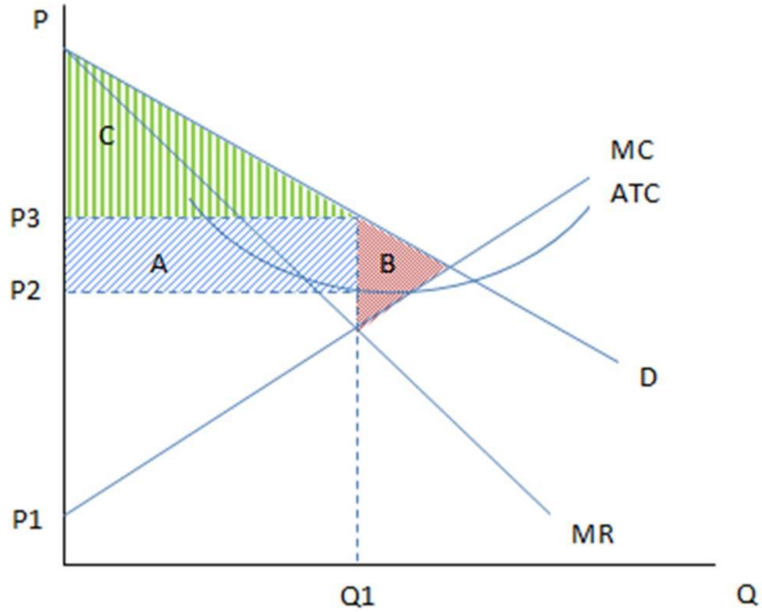
40. The principle of diminishing marginal product states:
A. the marginal product of an input increases as the quantity of the input increases.
B. the marginal product of an input decreases as the quantity of the input decreases.
C. the marginal product of an input decreases as the quantity of the input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

41. This table represents the revenues faced by a monopolist.

Price	Quantity Sold	Total Revenue	Average Revenue	Marginal Revenue
$1,000	1	$1,000		
$900	2	$1,800		
$800	3	$2,400		
$700	4	$2,800		
$600	5	$3,000		
$500	6	$3,000		
$400	7	$2,800		

Using the information in the table shown, the marginal revenue for the 3rd unit is:
A. $100
B. $800
C. $500
D. $600

42. These are the cost and revenue curves associated with a monopolistically competitive firm.



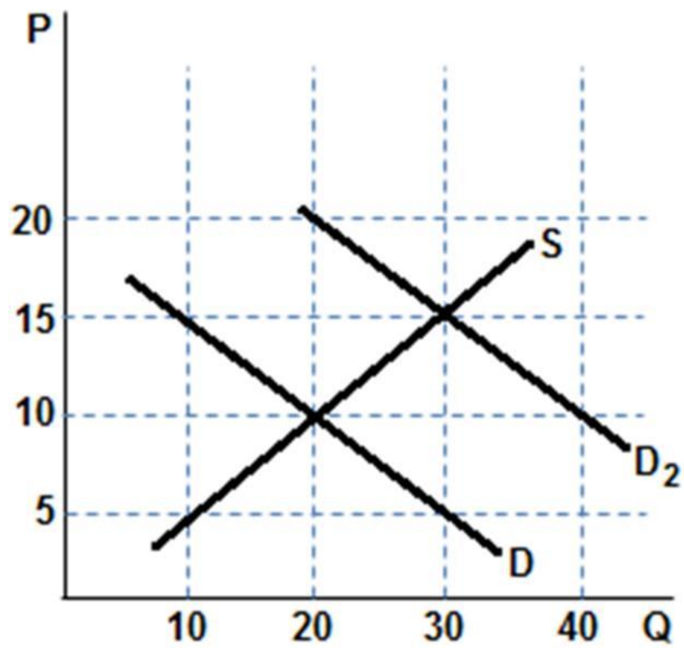
According to the graph shown, area C represents:
A. deadweight loss.
B. profits.
C. consumer surplus.
D. producer surplus.

43. Imagine Tom's annual salary as an assistant store manager is $30,000, he owns a building that rents for $10,000 yearly, and his financial assets generate $1,000 per year in interest. One day, after deciding to be his own boss, he quits his job, evicts his tenants, and uses his financial assets to establish a bicycle repair shop. To run the business, he outlays $15,000 in cash to cover all the costs involved with running the business, and earns revenues of $50,000. What are Tom's economic profits?
A. $24,000
B. -$6,000
C. $50,000
D. $35,000

44. Decisions about how to allocate resources are made by:
A. Resource allocation decisions are made by all of these.
B. businesses.
C. governments.
D. individuals.

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

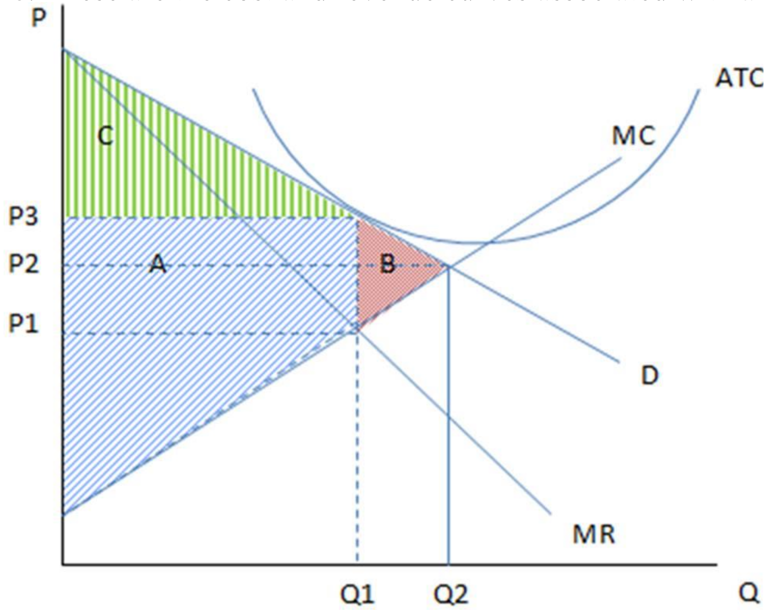
46.



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. Substitutes for this good became less expensive.
B. The good became cheaper to produce.
C. People expect the price of this good to drop in the near future.
D. The good became more popular.

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

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



According to the graph, this firm could maximize profits by producing _______ and charging ____.
A. Q1; P3
B. Q1; P1
C. Q2; P2
D. Q1; P2

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

50.

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. Diminishing marginal product sets in with the:
A. third worker.
B. fourth worker.
C. fifth worker.
D. second worker.

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