

Quiz 3

Name: _____

Student ID#: _____

Instructions: Time: 09:00am~09:50noon

1. (C) According to the Coase theorem, private markets will solve externality problems and allocate resources efficiently as long as
- a. the externalities that are present are positive, not negative.
 - b. government assigns property rights to the harmed party.
 - c. private parties can bargain with sufficiently low transaction costs.
 - d. businesses determine an appropriate level of production.
2. (C) Nancy loves to landscape her yard, but her neighbor Lee places a low value on his landscaping. When Lee's grass is neglected and gets long, Nancy will mow it for Lee. This is an example of
- a. a situation in which the Coase theorem fails to explain the lawn mowing arrangement.
 - b. an improper allocation of resources.
 - c. a private solution to a negative externality problem.
 - d. an exploitation of a common resource.
3. (a) The national defense of the United States is *not* rival because
- a. my enjoyment of the national defense does not diminish your enjoyment of the national defense of the United States.
 - b. my enjoyment of the national defense does diminish your enjoyment of the national defense of the United States.
 - c. once the nation is defended, it is impossible to prevent any single person from enjoying the benefit of this defense.
 - d. once the nation is defended, it is possible to prevent any single person from enjoying the benefit of this defense.

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4. (_c_) Which of the following is a *disadvantage* of government provision of a public good such as national defense?

- (i) The government does not know the exact willingness of consumers to pay for the public good.
 - (ii) The free-rider problem is more likely to occur when the government provides a public good than when the private sector provides a public good.
 - (iii) Taxpayers do not agree on the optimal quantity of the public good that the government should provide.
- a. (i) only
 - b. (i) and (ii) only
 - c. (i) and (iii) only
 - d. (i), (ii), and (iii)

5.(_a_) total revenue equals

- a. price x quantity.
- b. price/quantity.
- c. (price x quantity) - total cost.
- d. output - input.

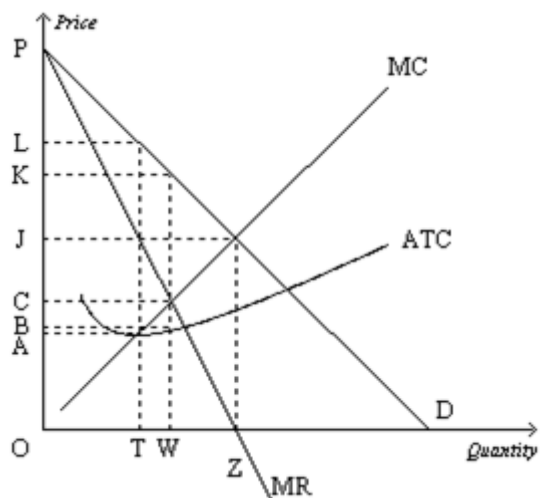
Cost schedule

Labor (workers)	Output (units per day)	Total fixed cost (dollars)	Total variable cost (dollars)
0	0	20	0
1	4	20	25
2	9	20	50
3	13	20	75
4	16	20	100
5	18	20	125

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6. (_c_) Using the data in the above table, when output increases from 4 to 9 units, the marginal cost of *one* of those 5 units is
- a. \$4.00.
 - b. \$4.25.
 - c. \$5.00.
 - d. \$6.25.
- 7.(_d_) When buyers in a competitive market take the selling price as given, they are said to be
- a. market entrants.
 - b. monopolists.
 - c. free riders.
 - d. price takers.
8. (_d_) Suppose a firm in a competitive market earned \$1,000 in total revenue and had a marginal revenue of \$10 for the last unit produced and sold. What is the average revenue per unit, and how many units were sold?
- a. \$5 and 50 units
 - b. \$5 and 100 units
 - c. \$10 and 50 units
 - d. \$10 and 100 units
9. (_c_) Which of the following is not a characteristic of a monopoly?
- a. barriers to entry
 - b. one seller
 - c. one buyer
 - d. a product without close substitutes

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10 (_c_) Refer to the figure above. What price will the monopolist charge?

- a. A
- b. C
- c. K
- d. L

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[Extra paper]