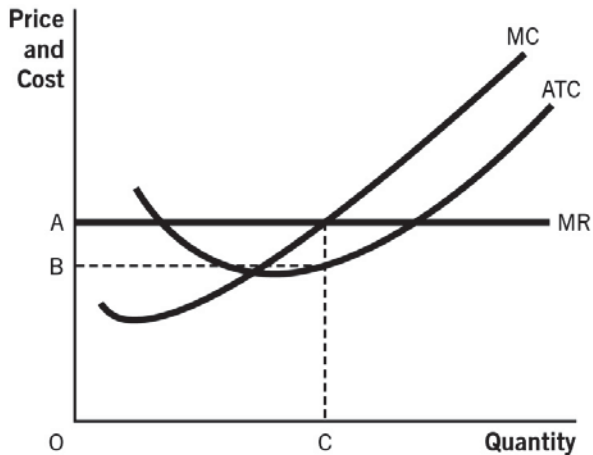


ECON 1B Spring 2020 Practice Final Exam

Multiple Choice

Identify the choice that best completes the statement or answers the question.

Refer to the accompanying graph to answer the questions that follow.



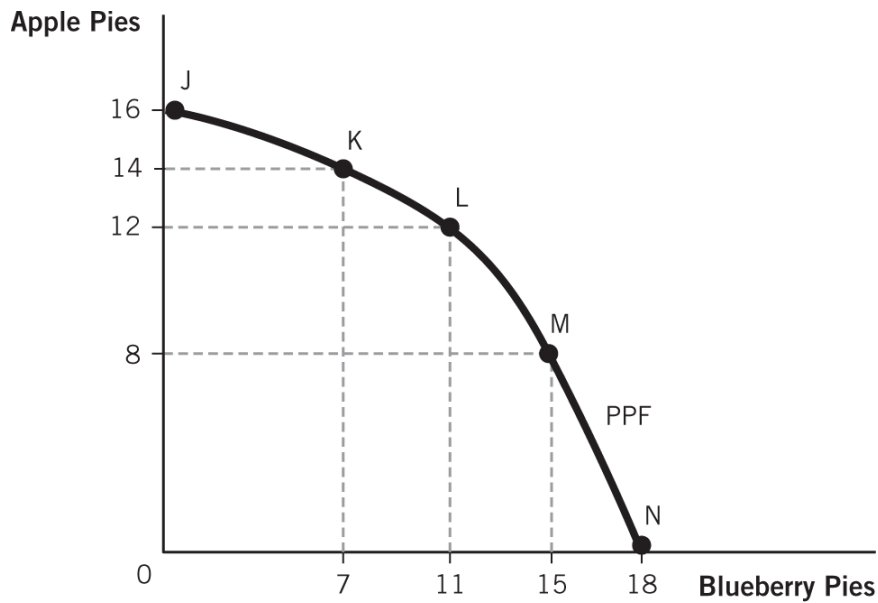
1. If this perfectly competitive firm is maximizing profits, total revenue is represented by the area:
 - a. $(A + B) \times C$.
 - b. $A \times B$.
 - c. $A \times C$.
 - d. $B \times C$.
 - e. $B \times C$.
2. If this perfectly competitive firm is maximizing profits, profit is represented by the area:
 - a. $(A - B) \times C$.
 - b. $(A + B) \times C$.
 - c. $B \times C$.
 - d. $A \times C$.
 - e. $A \times B$.
3. If the firm is maximizing profits, total cost is represented by the area:
 - a. $B \times C$.
 - b. $A \times C$.
 - c. $(A - B) \times C$.
 - d. $A \times B$.
 - e. $(A + B) \times C$.
4. Which of the following will cause a movement along a good's supply curve?
 - a. the price of the good increases
 - b. the production process of the good becomes more efficient
 - c. the government places a subsidy on the producer of the good
 - d. more firms enter the market
 - e. an increase in the price of an input

5. Kevin tells the manager at Moo's Ice Cream that he won't buy any ice cream cones costing more than \$2, but he will buy a limitless number at any price less than or equal to \$2. His price elasticity of demand for ice cream cones is:
 - a. relatively inelastic.
 - b. unitary elastic.
 - c. perfectly elastic.
 - d. perfectly inelastic.
 - e. relatively elastic.
6. What will happen in a market where a binding price floor is removed?
 - a. The products sold will be in shortage
 - b. There will be upward pressure on the prices.
 - c. There will be downward pressure on the prices.
 - d. There will be increased pressure to buy and sell the good on the black market.
 - e. The price or quantity of the product sold in the legal market will not change.
7. If a firm hires another worker and her marginal product of labor is positive, we know that the firm's total output is:
 - a. 0 (zero).
 - b. increasing.
 - c. equal to the marginal product of that worker.
 - d. unchanged.
 - e. decreasing.
8. Suppose you are studying a production possibilities frontier (PPF) that has a bowed-out shape relative to the origin. What causes this shape?
 - a. normative economics
 - b. more resources
 - c. economic growth
 - d. absolute advantage
 - e. the law of increasing relative cost
9. The term _____ means "additional."
 - a. "comparative"
 - b. "incentive"
 - c. "trade-off"
 - d. "marginal"
 - e. "opportunity cost"
10. What will happen in a market where a nonbinding price ceiling is removed?
 - a. The products sold will improve in quality and become more plentiful.
 - b. There will be increased pressure to buy and sell the good on the black market.
 - c. There will be downward pressure on the price in the market.
 - d. The price and quantity will not change in the legal market.
 - e. Sellers will face a reduced incentive to sell the product.
11. Setting a price ceiling below the equilibrium price can result in:
 - a. a surplus, where the quantity demanded exceeds the quantity supplied.
 - b. a surplus, where the quantity supplied exceeds the quantity demanded.
 - c. a shortage, where the quantity demanded exceeds the quantity supplied.
 - d. a shortage, where the quantity supplied exceeds the quantity demanded.
 - e. no impact on the quantity demanded or on the quantity supplied.

12. If a firm's long-run average total costs increase as it increases its scale of production, the firm is experiencing:
 - a. diminishing marginal product.
 - b. constant returns to scale.
 - c. diseconomies of scale.
 - d. increasing returns from consumption.
 - e. economies of scale.
13. Assume that the market for baseballs is in equilibrium. There is a sudden decrease in income throughout the economy. If all else is held constant, we would expect that:
 - a. if baseballs are a normal good, then the demand curve will shift to the left, causing the equilibrium price and quantity to rise.
 - b. if baseballs are a normal good, then the demand curve will shift to the left, causing the equilibrium price and quantity to fall.
 - c. if baseballs are an inferior good, then the demand curve will shift to the right, causing the equilibrium price and quantity to fall.
 - d. if baseballs are a normal good, then the demand curve will shift to the right, causing the equilibrium price and quantity to rise.
 - e. if baseballs are an inferior good, then the demand curve will shift to the left, causing the equilibrium price and quantity to fall.
14. Darrell owns a furniture store. His total costs are \$225,000 per year, and his variable costs are \$75,000 per year. This means that his fixed costs are:
 - a. \$75,000.
 - b. \$225,000.
 - c. \$50,000.
 - d. \$300,000.
 - e. \$150,000.
15. When both supply and demand decrease, the equilibrium price:
 - a. decreases and equilibrium quantity is indeterminate.
 - b. is indeterminate and equilibrium quantity decreases.
 - c. increases and equilibrium quantity is indeterminate.
 - d. increases and equilibrium quantity increases.
 - e. is indeterminate and equilibrium quantity increases.
16. If government regulation forces firms in an industry to internalize a negative externality, then we can expect the equilibrium price of the good to _____ and the equilibrium quantity to _____.
 - a. increase; increase
 - b. decrease; decrease
 - c. decrease; increase
 - d. increase; decrease
 - e. increase; remain unchanged
17. Which of the following characteristics best defines a public good?
 - a. rival and nonexcludable
 - b. nonrival and nonexcludable
 - c. nonrival and excludable
 - d. rival and excludable
 - e. a good that is never produced by the government
18. Positive externalities exist because:
 - a. internal benefits are less than social benefits.

- b. external benefits are greater than social benefits.
 - c. internal benefits are less than external benefits.
 - d. internal benefits are greater than external benefits.
 - e. internal benefits are greater than social benefits.
19. Economics is the study of:
- a. stock markets.
 - b. capitalism.
 - c. how to make workers more productive and firms more profitable.
 - d. how to allocate resources to satisfy unlimited wants.
 - e. how to make money.
20. *Ceteris paribus*, if a society is producing at a point on the production possibilities frontier (PPF), it can only increase the production of one good by:
- a. increasing the price of the second good.
 - b. also increasing the production of the second good.
 - c. decreasing the price of the second good.
 - d. decreasing the production of the second good.
 - e. reducing the resources available for production.
21. The local bakery calculates the price elasticity of demand for its cinnamon rolls to be -1.25 . This tells them that demand is _____ and price changes are _____ to the buyer.
- a. relatively inelastic; not important
 - b. relatively elastic; somewhat important
 - c. perfectly elastic; meaningless
 - d. unitary elastic; meaningless
 - e. perfectly inelastic; everything
22. Opportunity cost is the _____ alternative forfeited when a choice is made.
- a. total of every
 - b. least-valued
 - c. most convenient
 - d. most recently considered
 - e. highest-valued
23. The additional satisfaction derived from consuming one more unit of a good or service is called:
- a. the substitution effect.
 - b. the consumer optimum.
 - c. the real-income effect.
 - d. diminishing marginal utility.
 - e. marginal utility.

Refer to the following figure for the questions that follow.



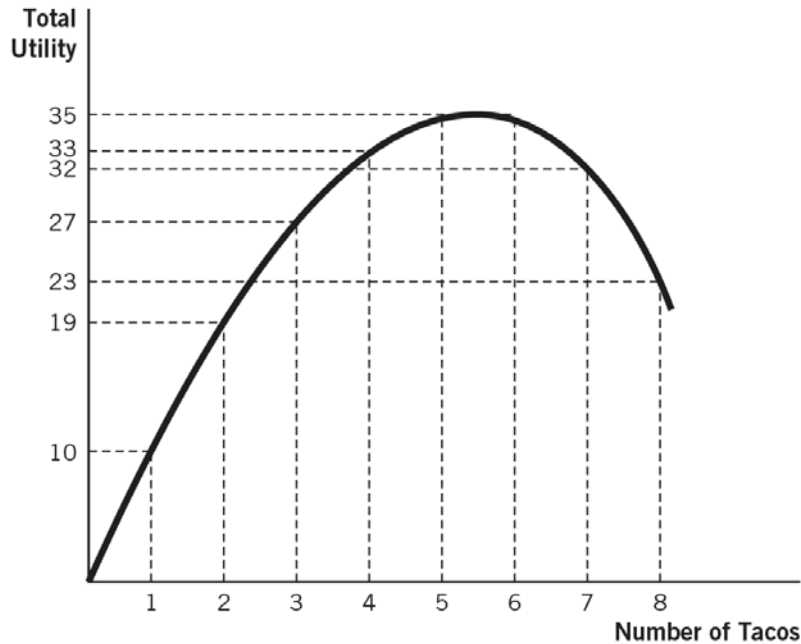
24. The opportunity cost of increasing production of blueberry pies from 7 to 11 pies is:
- 2 blueberry pies.
 - 14 apple pies.
 - 7 blueberry pies.
 - 4 apple pies.
 - 2 apple pies.
25. In the accompanying table, diminishing marginal product begins starting with the:

Input	Total Product
0	0
1	10
2	35
3	70
4	120
5	165
6	175
7	170
8	155

- first unit of input.
 - second unit of input.
 - seventh unit of input.
 - fifth unit of input.
 - sixth unit of input.
26. Which of the following conditions will result in the firm making an economic profit?
- $P > ATC$
 - $P < ATC$
 - $P = ATC$

- d. $P = AVC$
- e. $ATC > P > AVC$

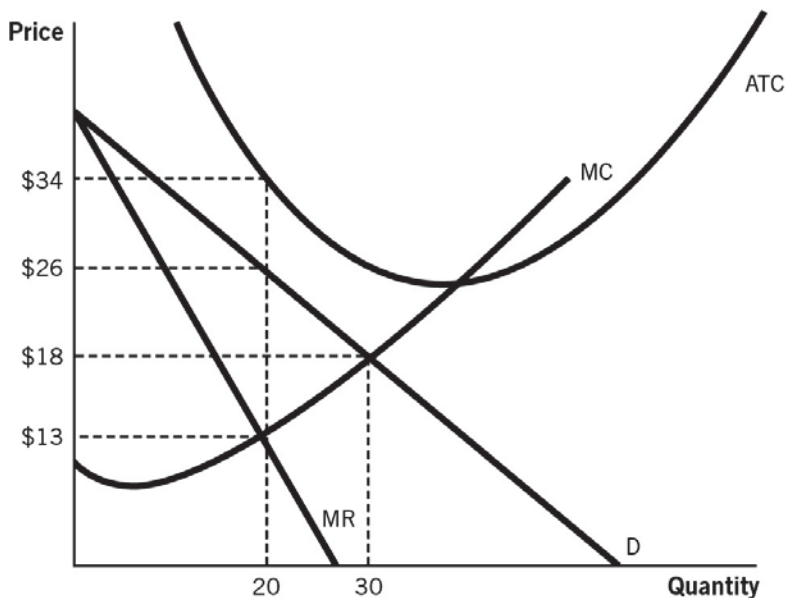
Refer to the accompanying figure to answer the questions that follow.



27. The marginal utility experienced from consuming the third taco is:
 - a. 10 utils.
 - b. 6 utils.
 - c. 27 utils.
 - d. 8 utils.
 - e. 23 utils.
28. As you move right along a demand curve, the price elasticity of demand:
 - a. becomes more inelastic.
 - b. becomes more elastic.
 - c. does not change.
 - d. becomes infinite.
 - e. moves closer to zero.
29. Bob is willing to pay \$65 for a new pair of shoes. Bill is willing to pay \$50 for the same shoes. The shoes have a price of \$45. What is the total consumer surplus for Bob and Bill?
 - a. \$15
 - b. \$20
 - c. \$5
 - d. \$25
 - e. \$35
30. Consumer surplus plus producer surplus equals:
 - a. deadweight loss.
 - b. economic profit.
 - c. social welfare.

- d. tax revenue
 - e. market distortions
31. After a tax is imposed, the price paid by consumers _____ and the price received by producers _____.
- a. increases; increases
 - b. increases; decreases
 - c. decreases; increases
 - d. decreases; decreases
 - e. is unaffected; is unaffected
32. Barriers to entry:
- a. measure the ability of firms to set the price for a good.
 - b. do not exist for monopolies.
 - c. always lead to profits.
 - d. restrict the entry of new firms into the market.
 - e. exist for perfectly competitive firms.
33. The profit-maximizing rule for a monopolist is:
- a. marginal revenue = marginal cost.
 - b. price = marginal cost.
 - c. price = marginal revenue.
 - d. average total cost = marginal revenue.
 - e. average total cost = marginal cost.
34. The demand curve for the product of a firm in a competitive market is _____, and the demand curve for the product of a monopolist is _____.
- a. horizontal; downward-sloping
 - b. horizontal; horizontal
 - c. downward-sloping; upward-sloping
 - d. downward-sloping; horizontal
 - e. upward-sloping; downward-sloping

Refer to the accompanying figure to answer the questions that follow.



35. The profit-maximizing price and quantity are:
- \$34 and 20, respectively.
 - \$26 and 20, respectively.
 - \$18 and 20, respectively.
 - \$18 and 30, respectively.
 - \$13 and 20, respectively.
36. The branch of economics that studies strategic decision making is called:
- interdependence theory.
 - game theory.
 - competitive theory.
 - noncompetitive theory.
 - strategic theory.
37. When a particular strategy produces a better outcome for a person regardless of the strategies others choose, we say it is a(n):
- dominated strategy.
 - dominant strategy.
 - equilibrated strategy.
 - efficient strategy.
 - surplus maximization strategy.
38. Refer to the accompanying table. In the Nash equilibrium of this game, Derrick will go to jail for _____ years and Brandy will go to jail for _____ years.

		Derrick	
		Confess	Keep quiet
Brandy	Confess	18 years in jail 18 years in jail	25 years in jail Goes free
	Keep quiet	Goes free 25 years in jail	0.5 years in jail 0.5 years in jail

- 0.5; 0.5
 - 25; 25
 - 0.5; 18
 - 0.5; 25
 - 18; 18
39. The accompanying table shows two firms in a duopoly. Each firm makes its decision without knowledge of the other firm's decision. The payoffs for each firm represent economic profits, and each firm strictly prefers more economic profit than less. In this game, selling _____ subscriptions a month is a dominant strategy for Flixbuster and selling _____ subscriptions a month is a dominant strategy for Netflix.

		Flixbuster	
		Sell 200 subscriptions per month	Sell 400 subscriptions per month
Nextflix	Sell 200 subscriptions per month	\$40,000 \$40,000	\$60,000 \$20,000
	Sell 400 subscriptions per month	\$20,000 \$60,000	\$25,000 \$25,000

- a. 200; 200
 - b. 200; 400
 - c. 400; 200
 - d. 400; 400
 - e. 100; 100
40. When marginal utility is positive, total utility:
- a. increases.
 - b. decreases.
 - c. can increase or decrease.
 - d. stays the same.
 - e. equals zero.