CLEP Microeconomics Practice Test

Time—90 Minutes 80 Questions	For each of the questions below, choose the best answer from the choices given.

1. In economics, the opportunity cost of an item or entity is

(A) the out-of-pocket expense of obtaining it.
(B) what you sacrifice to obtain it.
(C) always measured in units of time.
(D) always higher than it is generally believed to be.
(E) measured as the price you paid for it.

2. A good is not scarce in a society if

(A) the good's abundance is only limited by the government.
(B) at least one individual in society can obtain all he or she wants of the good.
(C) firms are producing at full capacity.
(D) those who have enough money can buy all they want of the good.
(E) all members of a society can have all they want of it.

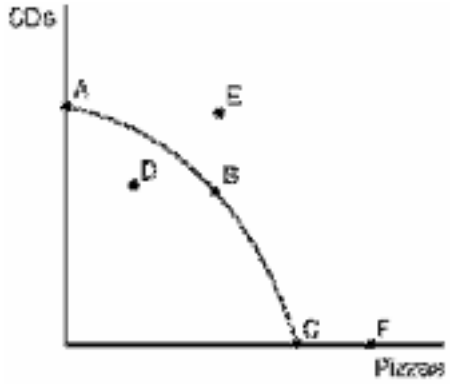
3. In a market economy, economic activity is guided by

(A) the government.
(B) prices.
(C) central planners.
(D) corporations.
(E) consumers.

4. Comparative advantage is based on

(A) capital costs.
(B) labor costs.
(C) opportunity costs.
(D) dollar price.
(E) income.

5.



On the production possibilities frontier shown above, at which point or points is it possible for this economy to produce?

(A) A, B, C, D
(B) A, B, C, F
(C) A, B, C, D, E, F
(D) D
(E) E, F

6.

	Labor Hours needed to make one unit of:		Amount produced in 120 hours:	
	Perfume (bottles)	Cloth (yards)	Perfume (bottles)	Cloth (yards)
Nancy	6	8	20	15
Roger	5	10	24	12

Refer to the table above. The opportunity cost of 1 bottle of perfume for Nancy is

(A) 4/3 yards of cloth.
(B) 3/4 yard of cloth.
(C) 1 yard of cloth.
(D) 1/4 yard of cloth.
(E) 10/8 yards of cloth.

7.

	Labor Hours needed to make one unit of:		Amount produced in 120 hours:	
	Perfume (bottles)	Cloth (yards)	Perfume (bottles)	Cloth (yards)
Nancy	6	8	20	15
Roger	5	10	24	12

Refer to the table above. Nancy has a comparative advantage in producing _____ and Roger has an absolute advantage in producing _____.

(A) perfume, cloth
(B) perfume, both goods
(C) cloth, both goods
(D) cloth, perfume
(E) both goods, perfume

8.

	Labor Hours needed to make one unit of:		Amount produced in 120 hours:	
	Perfume (bottles)	Cloth (yards)	Perfume (bottles)	Cloth (yards)
Nancy	6	8	20	15
Roger	5	10	24	12

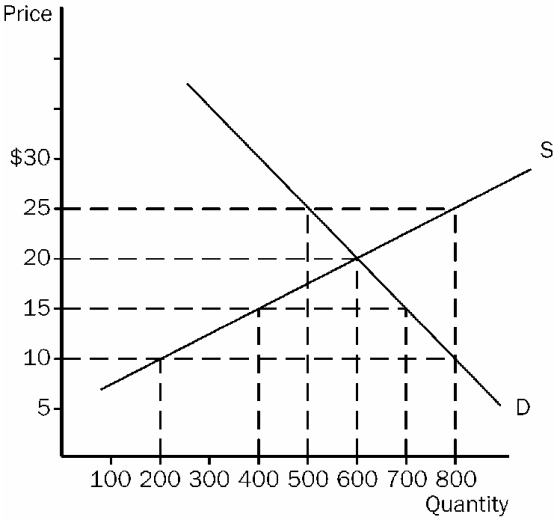
Refer to the tables above. Nancy and Roger both could benefit by Nancy specializing in _____ and Roger specializing in _____.

(A) perfume, cloth
(B) cloth, perfume
(C) perfume, perfume
(D) cloth, cloth
(E) They cannot benefit by specialization and trade.

9. Which of the following would NOT be a determinant of demand?

(A) The price of related goods
(B) Consumer income
(C) Tastes
(D) The prices of the inputs used to produce the good
(E) Price expectations

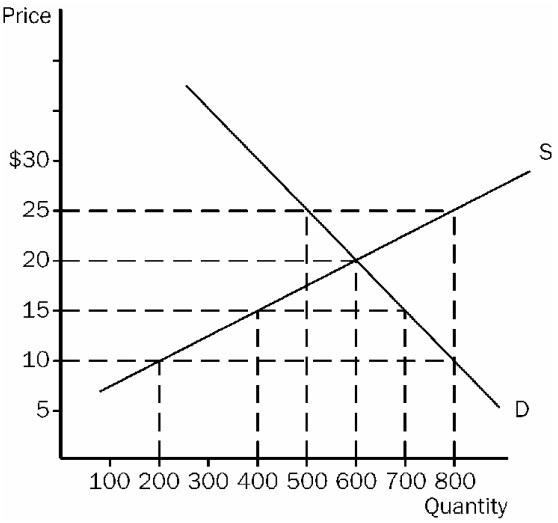
10.



Refer to the graph shown above. If the price is $25, the quantity demanded would be

(A) 400
(B) 500
(C) 600
(D) 700
(E) 800

11.



When the price is set at $25

(A) there is a surplus of 300.
(B) there is a surplus of 200.
(C) there is a shortage of 200.
(D) the market is in equilibrium.
(E) there is a shortage of 300.

12. Suppose you like banana cream pie made with vanilla pudding. Although all other factors are constant, you notice that the price of bananas is higher. How would your demand for vanilla pudding be affected by the price of bananas?

(A) My demand would decrease.
(B) My demand would increase.
(C) My demand would be unaffected.
(D) My quantity demanded would decrease.
(E) There is insufficient information to answer the question.

13. If a decrease in income increases the demand for a good, then

(A) the good is a substitute good.
(B) the good is a complement good.
(C) the good is a normal good.
(D) the good is a neutral good.
(E) the good is an inferior good.

14. What will occur in the rice market if buyers are expecting higher prices in the near future?

(A) The demand for rice will increase.
(B) The demand for rice will decrease.
(C) The demand for rice will be unaffected.
(D) The supply of rice will increase.
(E) The quantity of rice demanded will increase.

15. Suppose you make gold jewelry. If the price of gold falls, we would expect you to

(A) buy less gold.
(B) face a greater demand for your jewelry.
(C) face less demand for your jewelry.
(D) produce less jewelry than before at each possible price.
(E) produce more jewelry than before at each possible price.

16. Suppose that the incomes of buyers in a particular market for a normal good declines while a reduction in input prices occurs. What would we expect to occur in this market?

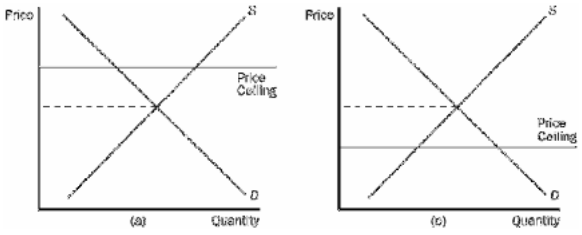
(A) The equilibrium price would increase, but the impact on the amount of goods sold in the market would be ambiguous.
(B) The equilibrium price would decrease, but the impact on the amount of goods sold in the market would be ambiguous.
(C) Both equilibrium price and equilibrium quantity would increase.
(D) Equilibrium quantity would increase, but the impact on equilibrium price would be ambiguous.
(E) Equilibrium quantity would decrease, but the impact on the equilibrium price would be ambiguous.

17. Less demand paired with a larger supply would necessarily result in

(A) a lower equilibrium price.
(B) a higher equilibrium price.
(C) an increase in equilibrium quantity.
(D) a decrease in equilibrium quantity.
(E) a higher equilibrium price and ambiguous quantity change.

18. The legal maximum price at which a good can be sold is a

(A) price floor.
(B) price stabilization.
(C) price support.
(D) price cut.
(E) price ceiling.

19. 

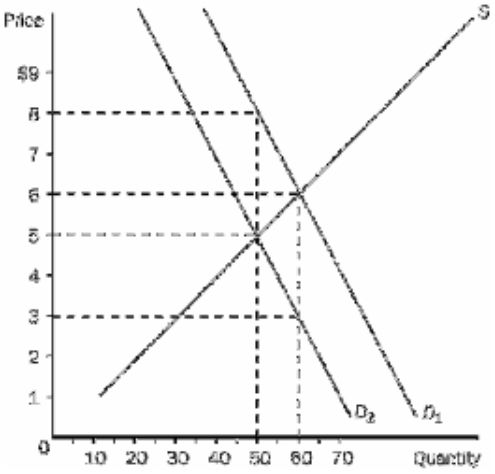
In the figure above, a binding price ceiling exists in

(A) panel (a), because the quantity demanded is greater than quantity supplied.
(B) panel (b), because the quantity demanded is greater than quantity supplied.
(C) panel (a), because the quantity supplied is greater than quantity demanded.
(D) panel (b), because the quantity supplied is greater than quantity demanded.
(E) neither panel (a) nor panel (b).

20. Rent control is

(A) an example of a social problem solved by government regulation.
(B) an example of a price ceiling.
(C) the most effective way to provide affordable housing.
(D) the most efficient way to allocate housing.
(E) an inequitable but efficient way of providing affordable housing.

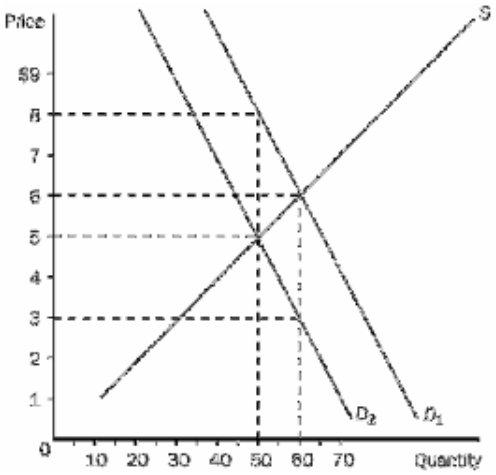
21.



The price buyers will pay after the tax is imposed is

(A) $8.00
(B) $6.00
(C) $5.00
(D) $3.50
(E) $3.00

22.



The amount of the tax that sellers would pay is

(A) $1.00
(B) $1.50
(C) $2.00
(D) $3.00
(E) $5.00

23. The rate at which a consumer is willing to exchange one good for another, and at which a constant level of satisfaction is maintained, is called the

(A) marginal rate of substitution.
(B) relative price ratio.
(C) relative expenditure ratio.
(D) value of marginal product.
(E) marginal rate of technical substitution.

24. The amount of a good an individual has

(A) is affected only by prices.
(B) will not be affected by the utility a consumer receives.
(C) is affected only by income.
(D) will not affect the marginal rate of substitution.
(E) affects the rate at which the consumer is willing to trade.

25. Utility measures

(A) the satisfaction a consumer receives from consuming a bundle of goods.
(B) how much a bundle of goods costs.
(C) the importance of a given resource to the production of a good.
(D) the relative prices of goods in a consumer's budget.
(E) the satisfaction of consumers when buying utility goods for their household.

26. The combination of two goods a consumer chooses depends on

(A) the consumer's demand and supply.
(B) the consumer's preferences and demand.
(C) the consumer's budget constraint and preferences.
(D) the consumer's budget constraint and supply.
(E) the consumer's budget constraint and demand.

27. When the price of a commodity rises, we can expect

(A) marginal utility of the last unit purchased to rise.
(B) marginal utility of the last unit purchased to fall.
(C) marginal utility of the last unit purchased to remain unaffected.
(D) purchases to rise because of the increased marginal utility.
(E) purchases to remain unchanged as marginal utility is unaffected.

28. A bottle of wine costs \$8 and a quiche costs \$5. At Robert's present levels of consumption, he spends all of his income and receives marginal utility of \$10 from the last bottle of wine and marginal utility of \$4 from the last quiche. To maximize his total utility, Robert should

(A) buy less wine and more quiche.
(B) buy more wine and less quiche.
(C) spend all of his money on wine.
(D) change his spending pattern until he buys 8/5 as much wine as quiche.
(E) buy more wine and more quiche.

29. If the marginal utility to Juan of sleeping an extra hour (from 8 a.m. to 9 a.m.) is negative,

(A) Juan should get up at 8 a.m.
(B) Juan should get up at 9 a.m.
(C) Juan's total utility from sleeping must be negative.
(D) Juan's average utility from every hour he sleeps must be negative.
(E) Juan should continue to sleep longer than 9 a.m.

30. Tom is buying a quantity of wheat at which the marginal utility (in dollars) exceeds price. He should

(A) reduce wheat consumption, thus raising P to the level at which MU = P.
(B) reduce wheat consumption, thus raising MU to the level at which MU = P.
(C) increase wheat consumption, thus raising P to the level at which MU = P.
(D) increase wheat consumption, thus lowering MU to the level at which MU = P.
(E) not consume wheat, as his marginal utility exceeds the price.

31. Chocolate Chip ice cream would tend to have very elastic demand because

(A) there is a large demand for chocolate chip ice cream.
(B) the market is broadly defined.
(C) there are few substitutes.
(D) it must be eaten quickly.
(E) other flavors of ice cream are almost perfect substitutes.

32. Suppose the price of product X is reduced from $10 to $9 and, as a result, the quantity of X demanded increases from 100 to 120. Using the midpoint method, the price elasticity of demand for X in the given price range is

(A) –2/3
(B) –1/6
(C) –1/2
(D) –11/17
(E) –17/11

33. Profit is defined as

(A) net revenue minus depreciation.
(B) average revenue minus average total cost.
(C) marginal revenue minus marginal cost.
(D) total revenue minus marginal cost.
(E) total revenue minus total cost.

34. XYZ Corporation produced 300 units of output but sold only 275 of the units it produced. The average cost of production for each unit of output produced was $100. Each of the 275 units sold were sold for a price of $95. The total revenue of the XYZ Corporation is

(A) $30,000
(B) $28,500
(C) $26,125
(D) $1,000
(E) –$3,875

35. An important implicit cost incurred by almost all businesses is the

(A) cost of accounting services.
(B) cost of compliance with government regulation.
(C) cost of debt.
(D) opportunity cost of financial capital that has been invested in the business.
(E) the cost of the Chief Executive Officer.

36. Which of the following costs does not vary with the amount of a firm's output?

(A) Marginal costs and average fixed costs
(B) Total fixed costs
(C) Average fixed costs
(D) Total fixed costs and average fixed costs
(E) Average total costs

37. If a firm produces nothing, which of the following costs will be zero?

(A) Variable cost
(B) Total cost
(C) Average cost
(D) Opportunity cost
(E) Fixed cost

38. One assumption that distinguishes short-run cost analysis from long-run cost analysis for a profit-maximizing firm is that in the short run,

(A) output is not variable.
(B) the size of the factory is fixed.
(C) the number of workers used to produce the firm's product is fixed.
(D) there are no fixed costs.
(E) fixed costs can be avoided.

39. When marginal cost exceeds average total cost,

(A) average variable cost is falling.
(B) average fixed cost is rising.
(C) average total cost is rising.
(D) average total cost is falling.
(E) average variable cost is independent of marginal cost.

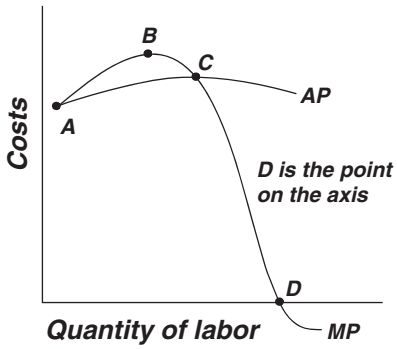
40. In the long run,

(A) all inputs are considered to be variable.
(B) variable inputs change to fixed inputs.
(C) some inputs, such as plant and machinery, remain fixed.
(D) variable inputs are rarely used.
(E) the factory size is always fixed.

41. Economies of scale occur when

(A) long-run average total costs rise as output increases.
(B) average variable costs are rising.
(C) average fixed costs are rising.
(D) average fixed costs are constant.
(E) long-run average total costs fall as output increases.

42.



The law of diminishing returns states that as more of a variable factor is added to a fixed amount of resources, output will eventually increase at a decreasing rate. Choose the response below that best reflects the information provided in the graph.

(A) Diminishing marginal returns begin in the range between points *C* and *D*.
(B) Diminishing marginal returns do not occur on this graph until labor exceeds point *D*.
(C) Diminishing marginal returns do not occur in the range of points *A* to *C* on either curve.
(D) Diminishing marginal returns begin at point *B*.
(E) Diminishing marginal returns begin at point *A*.

43. Tony is a wheat farmer, but also spends part of his day teaching guitar lessons. Due to the popularity of his local country western band, Farmer Tony has more students requesting lessons than he has time to instruct them if he is also to maintain his farming business. Farmer Tony charges $25 an hour for his guitar lessons. One spring day, he spends 10 hours in his fields planting $130 worth of seeds on his farm. He expects that the seeds he planted will yield $300 worth of wheat. What is the total opportunity cost Farmer Tony incurred for his spring day in the field planting wheat?

(A) $130
(B) $250
(C) $300
(D) $380
(E) $420

44. Tony is a wheat farmer, but also spends part of his day teaching guitar lessons. Due to the popularity of his local country western band, Farmer Tony has more students requesting lessons than he has time for if he is to also maintain his farming business. Farmer Tony charges $25 an hour for his guitar lessons. One spring day, he spends 10 hours in his fields planting $130 worth of seeds on his farm. He expects that the seeds he planted will yield $300 worth of wheat. Tony's accounting profit equals

(A) $–80
(B) $130
(C) $170
(D) $250
(E) $300

45. Tony is a wheat farmer, but also spends part of his day teaching guitar lessons. Due to the popularity of his local country western band, Farmer Tony has more students requesting lessons than he has time for if he is to also maintain his farming business. Farmer Tony charges $25 an hour for his guitar lessons. One spring day, he spends 10 hours in his fields planting $130 worth of seeds on his farm. He expects that the seeds he planted will yield $300 worth of wheat. Tony's economic profit equals

(A) $–80
(B) $130
(C) $170
(D) $250
(E) $300

46. The marginal product of labor is equal to the

(A) increase in labor necessary to generate a one-unit increase in output.
(B) increase in output obtained from a one-unit increase in labor.
(C) incremental profit associated with a one-unit increase in labor.
(D) incremental cost associated with a one-unit increase in labor.
(E) increase in output obtained from a one-dollar increase in revenue.

47. In a perfectly competitive market, the actions of any single buyer or seller will

(A) cause a noticeable change in overall production and a change in final product price.
(B) have little effect on overall production but will ultimately change final product price.
(C) have a negligible impact on the market price.
(D) adversely affect the profitability of more than one firm in the market.
(E) benefit the buyer's consumer surplus.

48.

Quantity	Total Revenue	Total Cost
0	$0	$10
1	9	14
2	18	19
3	27	25
4	36	32
5	45	40
6	54	49
7	63	59
8	72	70
9	81	82

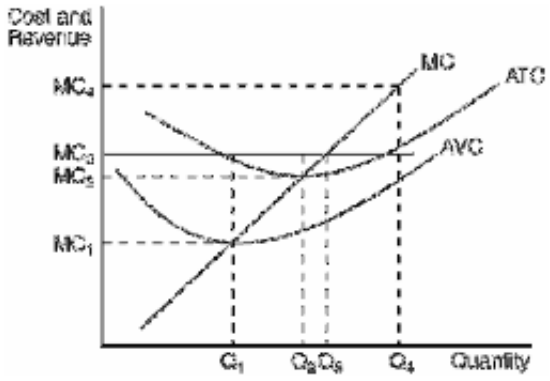
If this firm chooses to maximize profit it will choose a level of output where marginal cost is equal to

(A) 5
(B) 7
(C) 6
(D) 9
(E) 11

49. The supply curve of a price taker firm in the short run is

(A) the firm's average variable cost curve.
(B) the portion of the firm's average total cost curve that lies above average variable cost curve.
(C) the portion of the firm's marginal cost curve that lies above average variable cost curve.
(D) the firm's marginal revenue curve.
(E) zero.

50.



The graph above depicts the cost structure for a firm in a perfectly competitive market. What price level will leave the profit maximizing firm with zero profits?

(A) MC_1
(B) MC_2
(C) MC_3
(D) MC_4
(E) Zero

51. A firm in a perfectly competitive market produces and sells 500 door knobs at a price of $10 each. It then chooses to increase its output to 1,000 door knobs. After the increase in output, its average revenue will

(A) decrease.
(B) increase.
(C) rise above marginal revenue.
(D) fall below marginal revenue.
(E) equal $10.

52. Angelo is a wholesale meatball distributor. He sells his meatballs to all the finest Italian restaurants in town. Nobody can make meatballs like Angelo. As a result, his is the only business in town that sells meatballs to restaurants. Assuming that Angelo is maximizing his profit, which of the following statements is true?

(A) Meatball prices will exceed marginal cost.
(B) Meatball prices will equal marginal cost.
(C) Meatball prices will be less than marginal cost.
(D) Meatball prices have nothing to do with marginal cost.
(E) Meatball prices will be a function of supply and demand and will therefore oscillate around marginal costs.

53. A fundamental source of monopoly market power arises from

(A) barriers to entry.
(B) perfectly elastic demand.
(C) perfectly inelastic demand.
(D) availability of "free" natural resources, such as water or air.
(E) perfectly elastic supply.

54. When a firm operates under conditions of a monopoly, its price is

(A) constrained by marginal cost.
(B) constrained by demand.
(C) constrained only by its social agenda.
(D) constrained by its ability to produce.
(E) not constrained.

55. A profit maximizing monopolist will produce the level of output at which

(A) marginal revenue is equal to marginal cost.
(B) average revenue is equal to average total cost.
(C) average revenue is equal to marginal cost.
(D) total economic revenue is equal to opportunity cost.
(E) marginal cost is equal to average total cost.

56. What is the monopoly's profit under the following conditions? The profit-maximizing price charged for goods produced is $16. The intersection of the marginal revenue and marginal cost curves occurs where output is 10 units and marginal cost is $8. Average cost for 10 units of output is $6.

(A) $80
(B) $100
(C) $160
(D) $10
(E) $60

57. The economic inefficiency of a monopolist can be measured by

(A) the number of consumers who are unable to purchase the product because of its high price.
(B) the deadweight loss.
(C) the excess profit generated by monopoly firms.
(D) the poor quality of service offered by monopoly firms.
(E) pricing to eliminate other firms from the market.

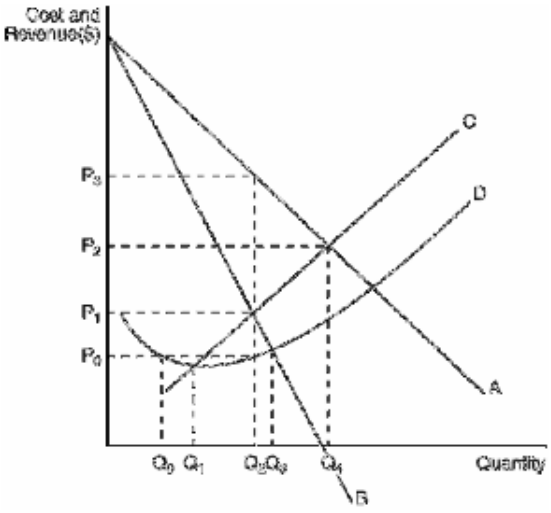
58.

Quantity	Price	Total Revenue	Average Revenue	Marginal Revenue
1	35	35		
2		64	32	29
3	29			
4				17
5	23			11
6		120		
7	17			-1
8				-7
9		99	11	-13
10	8	80		

Using the table above, if the monopolist sells 8 units of its product, how much revenue will it receive from the sale?

(A) –56
(B) 40
(C) 112
(D) 136
(E) Can't tell from the information provided.

59.



A profit maximizing monopoly would have a total revenue equal to

(A) $(P_3 - P_0) \times Q_2$
(B) $(P_3 - P_0) \times Q_4$
(C) $P_3 \times Q_2$
(D) $P_2 \times Q_4$
(E) $P_3 \times Q_4$

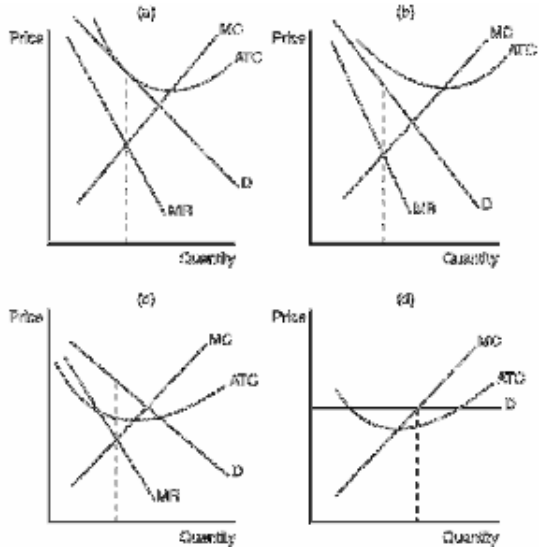
60. Monopolistic competition differs from perfect competition because in monopolistically competitive markets

(A) each of the sellers offers a somewhat different product.
(B) there are barriers to entry.
(C) all firms can eventually earn economic profits.
(D) strategic interactions between firms is vitally important.
(E) these firms have use of a key resource.

61. When firms are encouraged to enter monopolistically competitive markets,

(A) the diversity of products in the market must be small.
(B) they are guaranteed economic profits upon entry.
(C) some firms in the market must be making economic losses.
(D) no firms can experience economic losses.
(E) some firms in the market must be making economic profits.

62.



Which of the panels shown reflects a long-run equilibrium for a firm in a monopolistically competitive market?

(A) Panel a
(B) Panel b
(C) Panel c
(D) Panel d
(E) Panels a and c

63. The deadweight loss associated with a monopolistically competitive market is a result of

(A) operating in a constant cost industry.
(B) advertising costs.
(C) pricing below marginal cost in order to increase market share.
(D) pricing above marginal cost.
(E) pricing below average total cost.

64. As a group, oligopolists would always be better off if they would act collectively

(A) as a single monopolist.
(B) as a single competitor.
(C) as a single monopolistic competitor.
(D) in a manner that would prohibit collusive agreements.
(E) as if they were each seeking to maximize their own profit.

65.

Quantity	Price (per year)
0	$120
3,000	$100
6,000	$80
9,000	$60
12,000	$40
15,000	$20
18,000	$0

The information in the table above depicts the total demand for premium channel digital cable TV subscriptions in a small urban market. Assume that digital cable TV operators pay a fixed cost of $100,000 (per year) to provide premium digital channels in their market area and that the marginal cost of providing the premium channel service to a household is zero.

If there is only one digital cable TV company in this market, what price would it charge for a premium digital channel subscription to maximize its profit?

(A) $100
(B) $80
(C) $60
(D) $40
(E) $20

66. A group of firms that are acting in unison to maximize collective profits is called a

(A) conspiracy.
(B) dilemma game.
(C) union.
(D) coalition.
(E) cartel.

67. Labor markets are different from most other markets because labor demand is

(A) horizontal.
(B) upward sloping.
(C) derived.
(D) unit-elastic at multiple output levels.
(E) vertical.

68. The majority of income in the United States comes from

(A) wages and fringe benefits.
(B) interest.
(C) land rents.
(D) transfer payments.
(E) profits.

69. To maximize profit, a competitive firm hires workers until the point where

(A) marginal product and marginal cost curves intersect.
(B) value of the marginal product and marginal revenue curves intersect.
(C) total revenue equals the wage curve.
(D) wage and the total revenue curves intersect.
(E) value of the marginal product curve and the wage curves intersect.

70. A key determinant of labor productivity is

(A) family size.
(B) the wage rate.
(C) the amount of human capital workers acquire through education and training.
(D) the demand for the final product produced by labor.
(E) the price of the product the firm produces.

71.

Number of Workers	Output	Marginal Product of Labor	Value of Marginal Product of Labor	Wage	Marginal Profit
0	0				
1	100		$1000	$500	$500
2		80	$800	$500	
3		60		$500	$100
4	280		$400	$500	
5		20		$500	

A profit-maximizing firm will hire workers as long as the value of the marginal product of labor equals or exceeds

(A) $500
(B) $400
(C) $300
(D) $200
(E) $100

72.

Number of Workers	Output	Marginal Product of Labor	Value of Marginal Product of Labor	Wage	Marginal Profit
0	0				
1	100		$1000	$500	$500
2		80	$800	$500	
3		60		$500	$100
4	280		$400	$500	
5		20		$500	

How many workers will a profit-maximizing firm hire?

(A) 1
(B) 2
(C) 3
(D) 4
(E) 5

73. When externalities exist, buyers and sellers

(A) neglect the external effects of their actions but the market equilibrium is still efficient.
(B) do not neglect the external effects of their actions and the market equilibrium is efficient.
(C) do not neglect the external effects of their actions and the market equilibrium is not efficient.
(D) neglect the external effects of their actions and the market equilibrium is not efficient.
(E) neglect the external effects of their actions which does not affect the efficiency of the market equilibrium.

74. The impact of one person's actions on the well-being of a bystander is called

(A) competitive advantage.
(B) dead weight loss.
(C) market equilibrium.
(D) absolute advantage.
(E) an externality.

75. Markets are often inefficient when negative production externalities are present because

(A) private costs exceed social costs at the private market solution.
(B) externalities cannot be corrected without government regulation.
(C) social costs exceed private costs at the private market solution.
(D) production externalities lead to consumption externalities.
(E) consumption externalities lead to production externalities.

76. Suppose that a steel factory emits a certain amount of air pollution and that this pollution constitutes a negative externality. If this market is not required to internalize this externality,

(A) the supply curve would adequately reflect the marginal social cost of production.
(B) the market equilibrium would not be the socially optimal quantity.
(C) consumers will be required to pay a higher price for steel than they would have if the externality were internalized.
(D) the producers will produce less steel than they otherwise would have if the externality were internalized.
(E) the market equilibrium would not be the private optimal quantity.

77. Goods that are nonexcludable and nonrival are

(A) public goods.
(B) private goods.
(C) natural monopolies.
(D) common resources.
(E) private resources.

78. Competitive firms that maximize profit will hire workers until the value of the marginal product

(A) begins to fall.
(B) begins to rise.
(C) equals the wage.
(D) equals the price of the final good.
(E) equals the revenue the workers generate.

79. A lighthouse is typically considered an example of a public good because

(A) the owner of the lighthouse is able to exclude beneficiaries from enjoying the lighthouse.
(B) there is rarely another lighthouse nearby to provide competition.
(C) a nearby port authority cannot avoid paying fees to the lighthouse owner.
(D) the lighthouse prevents shipwrecks for the public's good.
(E) all passing ships are able to enjoy the benefits of the lighthouse without paying.

80. The poverty line reflects an annual income equal to approximately

(A) the cost of providing an adequate diet.
(B) two times the cost of providing an adequate diet.
(C) three times the cost of providing an adequate diet.
(D) four times the cost of providing an adequate diet.
(E) five times the cost of providing an adequate diet.