Question #1 of 49

Question ID: 1456720

The demand for a product tends to be price inelastic if:

A) few good complements for the product are available.

B) few good substitutes for the product are available.

C) people spend a large share of their income on the product.

Question #2 of 49

Question ID: 1456712

If the demand curve for a given product is a straight line with a slope of –5, this indicates that:

A) elasticity is constant along the demand curve.

B) demand is unit elastic.

C) demand is more elastic at higher prices.

Question #3 of 49

Question ID: 1456700

The cross price elasticity of demand for a substitute good and the income elasticity for an inferior good are:

	Cross elasticity	Income elasticity
A)	< 0	< 0
B)	> 0	< 0
C)	< 0	> 0

Question #4 of 49

Question ID: 1456730

A decrease in the price of Good Y can result in a decrease of the quantity of Good Y demanded by consumers if the substitution effect:

A) is positive and the income effect is negative and larger than the substitution effect.

B) is negative and larger than the positive income effect.

C) and the income effect are negative.

Question #5 of 49

Question ID: 1456708

If quantity demanded increases 15% when the price drops 1%, demand for this good:

A) elastic, but not perfectly elastic.

B) inelastic, but not perfectly inelastic.

C) perfectly elastic.

Question #6 of 49

Question ID: 1456734

A firm in a perfectly competitive industry that seeks to maximize profit is *most likely* to continue production in the short run as long which of the following conditions exists? Price is equal to or greater than:

A) average fixed cost.

B) average variable costs.

C) marginal cost.

Question #7 of 49

Question ID: 1456704

If quantity demanded increases 20% when the price drops 2%, this good exhibits:

A) inelastic, but not perfectly inelastic, demand.

B) elastic, but not perfectly elastic, demand.

C) perfectly inelastic demand.

Question #8 of 49

Question ID: 1462770

When two goods are complements, the cross elasticity of demand is:

A) negative, and for substitutes the cross price elasticity of demand is negative.

B) negative, and for substitutes the cross price elasticity of demand is positive.

C) positive, and for substitutes the cross price elasticity of demand is negative.

Question #9 of 49

Question ID: 1456738

A firm that is experiencing diseconomies of scale should:

A) decrease its plant size.

B) decrease output in the short run.

C) shut down in the long run.

Question #10 of 49

Question ID: 1456699

A good is *most likely* to demonstrate higher price elasticity of demand:

A) if it represents a small portion of the consumer's budget, than if it represents a large portion.

B) in the long run than the short run.

C) when there are few substitutes for the good, than when there are many good substitutes.

Question #11 of 49

Question ID: 1456732

A distinction between Giffen goods and Veblen goods is that:

A) demand curves for Giffen goods slope upward, while demand curves for Veblen goods slope downward.

B) Giffen goods are inferior goods, while Veblen goods are not inferior goods.

C) the substitution effect is positive for a Veblen good but negative for a Giffen good.

Question #12 of 49

Question ID: 1456737

Suppose a price-taker firm produces baseball bats that sell at a price of $100 each. This firm's average total cost at the current level of production is $150 per bat, and the average fixed cost is $40 per bat. Which of the following statements is *most accurate* regarding this firm? They should:

A) continue producing baseball bats because they are covering their fixed costs.

B) shut down in the short run because their average total cost is greater than their price.

C) shut down in the short run because their average variable cost is greater than their price.

Question #13 of 49

Question ID: 1456727

When the price of a good decreases, how do the income effect and the substitution effect change the quantity demanded of the good?

A) Both the income effect and the substitution effect increase the quantity demanded.

B) The income effect increases the quantity consumed, but the substitution effect may increase or decrease the quantity demanded.

C) The substitution effect increases the quantity demanded, but the income effect may increase or decrease the quantity demanded.

Question #14 of 49

Question ID: 1456743

According to the law of diminishing returns, doubling the number of salespeople for a firm will *most likely* result in:

A) decreasing the total sales of the firm as a result of competition amongst salespeople.

B) doubling the total sales of the firm.

C) increasing the total sales of the firm and reducing the average sales per salesperson.

Question #15 of 49

Question ID: 1462772

A company has estimated that the price elasticity of demand for its output is –1.1. If the company increases the price of its product by 5%, it is *most likely* that:

A) both total revenue and profits will decrease.

B) total revenue will decrease but profits may increase.

C) total revenue will increase but profits may decrease.

Question #16 of 49

Question ID: 1456747

At a fixed level of capital, output increases as the quantity of labor increases, but at a decreasing rate. This phenomenon is an example of:

A) diminishing costs to labor.

B) diminishing returns to capital.

C) diminishing returns to labor.

Question #17 of 49

Question ID: 1456733

When household incomes go down and the quantity of a product demanded goes up, the product is:

A) a normal good.

B) a Veblen good.

C) an inferior good.

Question #18 of 49

Question ID: 1456731

A good is considered an inferior good if it exhibits a negative:

A) elasticity of demand.

B) income effect.

C) substitution effect.

Question #19 of 49

Question ID: 1456706

If a good has elastic demand, a small percentage price increase will cause:

A) a larger percentage decrease in the quantity demanded.

B) a smaller percentage increase in the quantity demanded.

C) a larger percentage increase in the quantity demanded.

Question #20 of 49

Question ID: 1456716

Income elasticity is defined as the:

A) change in quantity demanded divided by the change in income.

B) percentage change in the quantity demanded divided by the percentage change in income.

C) percentage change in income divided by the percentage change in the quantity demanded.

Question #21 of 49

Question ID: 1456739

Which of the following *most accurately* describes economies of scale? Economies of scale:

A) are dependent on short-run average costs.

B) increase at a decreasing rate.

C) occur when long-run unit costs fall as output increases.

Question #22 of 49

Question ID: 1456718

The percent change in demand for a good divided by the percent change in the price of another good is known as the:

A) price elasticity of demand.

B) cross price elasticity of demand.

C) income elasticity of demand.

Question #23 of 49

Question ID: 1456702

Income elasticity is defined as the percentage change in:

A) income divided by the percentage change in the quantity demanded.

B) quantity demanded divided by the percentage change in income.

C) quantity demanded divided by the percentage change in the price of the product.

Question #24 of 49

Question ID: 1456746

The law of diminishing returns states that for a given production process, as more and more of a resource (such as labor) are added, holding the quantities of other resources fixed:

A) output increases at a decreasing rate.

B) cost declines at a decreasing rate.

C) cost declines at an increasing rate.

Question #25 of 49

Question ID: 1456705

The primary factors that influence the price elasticity of demand for a product are:

A) changes in consumers' incomes, the time since the price change occurred, and the availability of substitute goods.

B) the availability of substitute goods, the time that has elapsed since the price of the good changed, and the proportions of consumers' budgets spent on the product.

C) the proportions of consumers' budgets spent on the product, the size of the shift in the demand curve for a product, and changes in consumers' price expectations.

Question #26 of 49

Question ID: 1456717

Price elasticity of demand is *most* accurately defined as the change in:

A) market price in response to a change in the quantity demanded.

B) quantity demanded in response to a change in income.

C) quantity demanded in response to a change in market price.

Question #27 of 49

Question ID: 1456715

If the price elasticity of demand is -1.5 and the price of the product increases 2%, the quantity demanded will:

A) decrease approximately 0.75%.

B) decrease approximately 1.5%.

C) decrease approximately 3%.

Question #28 of 49

Question ID: 1462773

A firm is operating in a perfectly competitive market. Market price is greater than average variable cost (AVC) but lower than average total cost (ATC). Which of the following statements is *most* accurate?

A) The firm should continue to produce and sell its product in the short run but not in the long run, unless the price increases.

B) The firm should decrease its production in the short run in order to increase price and either reduce losses or produce profits.

C) If the owner thinks the price eventually will exceed ATC, the firm should shut down its operations temporarily and resume when price exceeds ATC.

Question #29 of 49

Question ID: 1456719

Gene Bawerk, an economics professor, is lecturing on the factors that influence the price elasticity of demand. He makes the following assertions:

> Statement 1: For most goods, demand is more elastic in the long run than the short run.
>
> Statement 2: Demand for a good becomes more elastic when a close substitute for it becomes available on the market.

With respect to Bawerk's statements:

A) only statement 1 is correct.

B) only statement 2 is correct.

C) both are correct.

Question #30 of 49

Question ID: 1456714

If the price elasticity of demand is –1.5 and a change in the price of the product increases the quantity demanded by 4%, then what is the percent change in price?

A) –0.375%.

B) –2.667%.

C) –6.000%.

Question #31 of 49

Question ID: 1456744

Based on the concept of diminishing returns, as the quantity of output increases, the short-run marginal costs of production eventually:

A) fall at a decreasing rate.

B) rise at a decreasing rate.

C) rise at an increasing rate.

Question #32 of 49

Question ID: 1456713

If the price elasticity of demand for a good is –4.0, then a 10% increase in price would result in a:

A) 10% decrease in the quantity demanded.

B) 4% decrease in the quantity demanded.

C) 40% decrease in the quantity demanded.

Question #33 of 49

Question ID: 1456736

Under perfect competition, if the price of a firm's product is below its average total cost, in the short run the firm should:

A) shut down, but operate in the long run if it is covering its variable costs.

B) operate if it is covering its variable costs.

C) increase the product price to at least cover its average total cost.

Question #34 of 49

Question ID: 1456709

If a good has elastic demand, a small price decrease will cause:

A) a larger decrease in the quantity demanded.

B) a larger increase in quantity demanded.

C) no change in the quantity demanded.

Question #35 of 49

Question ID: 1462769

The price of milk in a country increases from €1.00 per liter to €1.10 per liter, and the quantity supplied does not change. This suggests the elasticity of the short-run supply of milk in this country is equal to:

A) infinity, and supply is perfectly elastic.

B) infinity, and supply is perfectly inelastic.

C) zero, and supply is perfectly inelastic.

Question #36 of 49

Question ID: 1456725

With respect to utility theory, the income effect for a decrease in the price of a good:

A) may increase or decrease consumption of the good.

B) will increase consumption of the good.

C) will decrease consumption of the good.

Question #37 of 49

Question ID: 1462771

The daily demand curve for olive oil (in liters) for a particular distributor is estimated as:

$$\text{Price}_{\text{olive oil}} = 20 - Q_{\text{olive oil}} / 150$$

At a price of $10 per liter, the price elasticity of demand for olive oil is *closest* to:

A) −0.007.

B) −1.000.

C) −1.300.

Question #38 of 49

Question ID: 1456726

With respect to utility theory, the substitution effect for a decrease in the price of a good:

A) will decrease consumption of the good.

B) may increase or decrease consumption of the good.

C) will increase consumption of the good.

Question #39 of 49

Question ID: 1456729

A good for which consumers exhibit a negative income effect that is smaller than the substitution effect is *most accurately* described as a(n):

A) Giffen good.

B) inferior good.

C) Veblen good.

Question #40 of 49

Question ID: 1456703

If the price elasticity of a linear demand curve is –1 at the current price, an increase in price will lead to:

A) an increase in total revenue.

B) a decrease in total revenue.

C) no change in total revenue.

Question #41 of 49

Question ID: 1456742

Which of the following statements regarding diminishing marginal returns is *most* accurate?

A) The total cost curve arches downward.

B) As the quantity produced rises, costs begin to rise at an increasing rate.

C) As the quantity produced rises, costs begin to rise at a decreasing rate.

Question #42 of 49

Question ID: 1456740

The upward sloping segment of a long-run average total cost curve represents the existence of:

A) diseconomies of scale.

B) economies of scale.

C) efficiencies of scale.

Question #43 of 49

Question ID: 1456745

The law of diminishing returns states that at some point as:

A) more of a resource is devoted to production, holding the quantity of other inputs constant, the output will increase, but at a decreasing rate.

B) more of a resource is devoted to production, holding the quantity of other inputs constant, at some point output will begin to decrease.

C) less of a resource are devoted to production, holding the quantity of other inputs constant, the output will decrease, but at an increasing rate.

Question #44 of 49

Question ID: 1456710

When demand for a good is relatively inelastic, a higher price will:

A) fail to reduce the quantity demanded for the good.

B) have no impact on the demand for the good.

C) lead to an increase in total expenditures for the good.

Question #45 of 49

Question ID: 1456711

If the price of World Cup Soccer tickets increases from $40 a ticket to $50 a ticket and the quantity demanded of tickets stays the same, demand for the tickets is:

A) elastic, but not perfectly elastic.

B) inelastic, but not perfectly inelastic.

C) perfectly inelastic.

Question #46 of 49

Question ID: 1456707

For a linear demand curve, at the price where elasticity is -2.0, reducing prices will:

A) decrease total revenue and we are not at the point of maximum total revenue.

B) increase total revenue and we are at the point of maximum total revenue.

C) increase total revenue and we are not at the point of maximum total revenue.

Question #47 of 49

Question ID: 1456735

If the price of its product is less than its average total cost in the long run, a firm operating under perfect competition should:

A) keep operating only if it is covering its variable costs.

B) shut down.

C) keep operating and attempt to eliminate its fixed costs.

Question #48 of 49

Question ID: 1456728

Which of the following is *most likely* to cause a decrease in the consumption of a good in response to a decline in the price of the good?

A) Income effect.

B) Law of demand.

C) Substitution effect.

Question #49 of 49

Question ID: 1456701

If the price elasticity of demand is –2 and the price of the product decreases by 5%, the quantity demanded will:

A) decrease 2.5%.

B) increase 10%.

C) increase 7%.