Title:	**Makeup for Test 2**
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Course	Economics 1B03

1. A binding price ceiling causes:
   a) a shortage, which cannot be eliminated through market adjustment.
   b) a surplus, which cannot be eliminated through market adjustment.
   c) a shortage, which is temporary, since market adjustment will cause price to rise.
   d) a surplus, which is temporary, since market adjustment will cause price to rise.

2. A binding price ceiling will make it necessary to:
   a) develop a better marketing plan, because there will be a surplus.
   b) develop a way of rationing the product, because there will be a shortage.
   c) increase demand for the product.
   d) supply more of the product.

3. In the housing market, rent controls cause quantity supplied to:
   a) fall and quantity demanded to fall.
   b) rise and quantity demanded to fall.
   c) fall and quantity demanded to rise.
   d) rise and quantity demanded to rise.

4. A minimum wage imposed above a market's equilibrium wage will result in the quantity:
   a) demanded of labor being greater than the quantity supplied of labor and a shortage of workers will occur.
   b) supplied of labor being greater than the quantity demanded of labor and unemployment will occur.
   c) demanded of labor being greater than the quantity supplied of labor and unemployment will occur.
   d) supplied of labor being greater than the quantity demanded of labor and a shortage of workers will occur.

5. A tax placed on kite buyers will shift
   a) supply upward, causing equilibrium price to rise and equilibrium quantity to fall.
   b) demand downward, causing both equilibrium price and quantity to fall.
   c) demand upward, causing both equilibrium price and quantity to rise.
   d) supply downward, causing equilibrium price to fall and equilibrium quantity to rise.

Figure 6-9

6. **Refer to Figure 6-9**. The price buyers will pay after the tax is imposed is:
   a) $12.00
   b) $14.00
   c) $8.00
   d) $18.00
   e) $6.00

7. **Refer to Figure 6-9**. The price sellers receive after the tax is imposed is:
   a) $12.00
   b) $8.00
   c) $18.00
   d) $6.00
   e) $14.00

8. **Refer to Figure 6-9**. The amount of the tax per unit imposed in this market is:
   a) $2.00
   b) $6.00
   c) $10.00
   d) $8.00.
   e) $4.00

9. **Refer to Figure 6-9**. The amount of the tax per unit that buyers would pay would be:
   a) $4.00
   b) $6.00
   c) $2.00
   d) $10.00
   e) $8.00

10. **Refer to Figure 6-9**. The amount of the tax per unit that sellers would pay would be:
   a) $6.00
   b) $10.00
   c) $4.00
   d) $8.00
   e) $2.00

11. A tax imposed on a market with an inelastic demand and an elastic supply will cause:
   a) the tax burden to be equally divided between buyers and sellers
   b) buyers to pay the majority of the tax
   c) the tax burden to be divided, but it cannot be determined how

d) sellers to pay the majority of the tax

12. A tax has a deadweight loss because

1. it induces the government to spend more.
2. it induces buyers to consume less and sellers to produce less.
3. the loss to buyers is greater than the loss to sellers.
4. it causes a disequilibrium in the market.

13. When evaluating the size of the deadweight loss due to a tax we know that the

1. primary factor that determines the size of the deadweight loss in the percentage the tax is of price.
2. smaller the elasticities of supply and demand, the greater the deadweight loss.
3. smaller the decrease in both quantity demanded and quantity supplied, the greater the deadweight loss.
4. greater the elasticities of supply and demand, the greater the deadweight loss.

14. The marginal product of labour is equal to the

1. incremental profit associated with a one unit increase in labour.
2. increase in output obtained from a one unit increase in labour.
3. incremental cost associated with a one unit increase in labour.
4. increase in labour necessary to generate a one unit increase in output.

15. Unavailable

16. Unavailable

17. Let L represent the number of workers hired by a firm and let Q represent that firm's quantity of output. Assume two points on the firm's production function are ($L = 12$, $Q = 122$) and ($L = 13$, $Q = 130$). Then the marginal product of the 13th worker is :

1. 8 units of output.
2. 10 units of output.
3. 130 units of output.
4. 122 units of output.

18. If marginal cost is rising,

1. average variable cost must be falling.
2. marginal product must be falling.
3. average fixed cost must be rising.
4. marginal product must be rising.

19. Average total cost is very high when a small amount of output is produced because

1. average fixed cost is high.

2. All of the above are correct.
3. average variable cost is high.
4. marginal cost is high.

20. The efficient scale of the firm is the quantity of output that

1. minimizes average variable cost.
2. minimizes average total cost.
3. maximizes marginal product.
4. minimizes total avoidable costs.
5. maximizes profit.

21. **Unavailable**

22. The long-run average total cost curve is always

1. rising as output increases.
2. falling as output increases.
3. flatter than the short-run average total cost curve, but not necessarily horizontal.
4. horizontal.

23. The length of the short run

1. is different for different types of firms.
2. is always less than 6 months.
3. can never exceed 1 year.
4. can never exceed 3 years.

24. When a firm in a competitive market produces 11 units of output, it has a marginal revenue of $9.00. What would be the firm's total revenue when it produces 8 units of output?

1. $60.00
2. $72.00
3. $6.00
4. $4.80
5. $48.00

25. When a profit-maximizing firm in a competitive market has zero economic profit, accounting profit

1. is positive.
2. is also zero.
3. is negative (accounting losses).
4. could be positive, negative or zero.

26. When price rises from P_2 to P_3, a firm in a competitive market finds that

1. if it produces at output level Q_3 it will earn a positive profit.
2. All of the above are correct.
3. expanding output to Q_4 would leave the firm with losses.
4. marginal cost exceeds marginal revenue at a production level of Q_2.

27. When a perfectly competitive firm makes a decision to shut down, it is most likely that

1. price is below the minimum of average variable cost.
2. fixed costs exceed variable costs.
3. marginal cost is above average variable cost.
4. marginal cost is above average total cost.

28. A firm's marginal cost has a minimum value of $2; its average variable cost has a minimum value of $4; and its average total cost has a minimum value of $5. Then the firm will shut down if the price of its product falls below

1. $5.
2. There is not enough information given to answer the question.
3. $2.
4. $4.

29. A profit-maximizing firm in a competitive market is currently producing 100 units of output. It has average revenue of $10, and its average total cost is $8. It follows that the firm's

1. average variable cost curve intersects the marginal cost curve at an output level of less than 100 units.
2. average total cost curve intersects the marginal cost curve at an output level of less than 100 units.
3. All of the above are correct.
4. profit is $200.

30. A firm in a competitive market has the following cost structure:

Output	Total Cost
0	$5
1	$10
2	$12
3	$15
4	$24
5	$40

This firm will shut down

1. if price falls below $3.33 and exit if it falls below $5.
2. and exit if price falls below $5.
3. if price falls below $5 and exit if it falls below $3.33.
4. if price falls below $7 and exit if it falls below $10.

31. When all firms and potential firms in a market have the same cost curves, the long-run equilibrium of a competitive market with free entry and exit will be characterized by firms

1. that band together to raise market prices.
2. facing the prospect of future losses.
3. operating at efficient scale.
4. earning small levels of economic profit.

32. A competitive market is in long-run equilibrium. If demand decreases, we can be certain that price will

1. fall in the short run. All firms will shut down and some of them will exit the industry. Price will then rise.
2. fall in the short run. No firms will shut down, but some of them will exit the industry. Price will then rise.
3. not fall in the short run because firms will exit to maintain the price.
4. fall in the short run. All, some, or no firms will shut down, and some of them will exit the industry. Price will then rise.

33. When a natural monopoly exists, it is

1. never cost effective for two or more private firms to produce the product.
2. always cost effective for two or more private firms to produce the product.
3. never cost effective for one firm to produce the product.
4. always cost effective for government-owned firms to produce the product.

34. A profit-maximizing monopoly's profit is equal to

1. $P_3 \times Q_2$.
2. $(P_3 - P_0) \times Q_2$.
3. $P_2 \times Q_4$.
4. $(P_3 - P_0) \times Q_4$.

35. The profit-maximization problem for a monopolist differs from that of a competitive firm in which of the following ways?

1. None of the above are correct.
2. For a competitive firm, marginal revenue at the profit-maximizing level of output is equal to marginal revenue at all other levels of output; for a monopolist, marginal revenue at the profit-maximizing level of output is smaller than it is for larger levels of output.
3. A competitive firm maximizes profit at the point where

average revenue equals marginal cost; a monopolist maximizes profit at the point where average revenue exceeds marginal cost.
4. For a profit-maximizing competitive firm, thinking at the margin is much more important than it is for a profit-maximizing monopolist.
5. A competitive firm maximizes profit at the point where marginal revenue equals marginal cost; a monopolist maximizes profit at the point where marginal revenue exceeds marginal cost.

36. There are 20 identical firms in a perfectly competitive market. Market demand is Qd = 110 - P and market supply is Qs = 10P. Each firm has MC = 2Q and constant ATC = 6. How much will each firm produce?

1. 50
2. 5
3. 100
4. 10

37. There are 20 identical firms in a perfectly competitive market. Market demand is Qd = 110 - P and market supply is Qs = 10P. Each firm has MC = 2Q and constant ATC = 6. The profit for each firm is

1. $400
2. $20
3. $200
4. $40

38. here are 20 identical firms in a perfectly competitive market. Market demand is Qd = 110 - P and market supply is Qs = 10P. Each firm has MC = 2Q and constant ATC = 6. In the long run, the number of firms will be

1. 21
2. 35
3. 20
4. not enough information to determine

39. There are 20 identical firms in a perfectly competitive market. Market demand is Qd = 110 - P and market supply is Qs = 10P. Each firm has MC = 2Q and constant ATC = 6. Suppose the government imposes a per unit tax of $2 on consumers. The new demand curve is Qd_{tax} = 108 - P. The price consumers now pay is

1. $9.82
2. $11.82
3. $10
4. $12

40. There are 20 identical firms in a perfectly competitive market. Market demand is Qd = 110 - P and market supply is Qs = 10P. Each firm has MC = 2Q and constant ATC = 6. Suppose the government imposes a per unit tax of $2 on consumers. The new demand curve is Qd_{tax} = 108 - P. The deadweight loss due to taxation is

1. $2.00
2. $4.20
3. $1.80
4. $3.60

41. There are 20 identical firms in a perfectly competitive market. Market demand is Qd = 110 - P and market supply is Qs = 10P. Each firm has MC = 2Q and constant ATC = 6. Suppose the government imposes a per unit tax of $2 on consumers. The new demand curve is Qd_{tax} = 108 - P. Consumers bear the _____ burden of the tax because _____ is more _____ than _____.

1. larger; supply; elastic; demand
2. smaller; supply; inelastic; demand
3. smaller; demand; elastic; supply
4. larger; demand; elastic; supply

42. A monopoly faces market demand of P = 100 - 2Q and MR = 100 - 4Q. Its TC = $.25Q^2$ and MC = .5Q. The firm's profit is

1. $1110.00
2. $548.88
3. -$1500.42, a loss
4. $62.16

43. A monopoly faces market demand of P = 100 - 2Q and MR = 100 - 4Q. Its TC = $.25Q^2$ and MC = .5Q. Profit maximizing output and price are

1. 44.4, $12.20
2. 11.1, $22.00
3. 22.2, $55.60
4. 40, $20.00

44. A monopoly faces market demand of P = 100 - 2Q and MR = 100 - 4Q. Its TC = $.25Q^2$ and MC = .5Q. The deadweight loss due to monopoly is

1. $886.00
2. $394.27
3. $983.46
4. $788.54

Answers:

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