Econ 2100

Exam 2

Spring 2015

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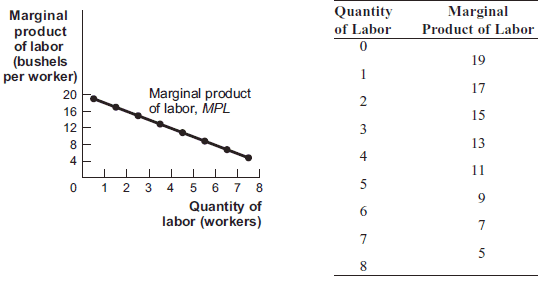
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| 1. | The term *diminishing returns* refers to a: | |
| A) | falling interest rate that can be expected as one's investment in a single asset increases. |
| B) | reduction in profits caused by increasing output beyond the optimal point. |
| C) | decrease in total output due to overcrowding, when too much labor is used with too little land or capital. |
| **D)** | **decrease in the extra output due to the use of an additional unit of a variable input, when more and more of the variable input is used and all other things are held constant.** |

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| 2. | If two firms are identical in all respects *except* that one has more capital than another, the marginal product curve for the firm with more capital: | |
| A) | must equal the marginal product curve for the firm with less capital. |
| **B)** | **will lie above the marginal product curve for the firm with less capital.** |
| C) | will lie below the total marginal curve for the firm with less capital. |
| D) | will show no diminishing marginal returns. |

Use the following to answer question 3:

**Figure: Marginal Product of Labor**



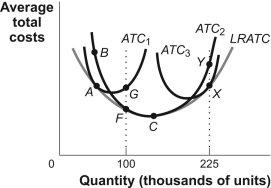
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| 3. | (Figure: Marginal Product of Labor) Using the marginal product of labor curve in the accompanying figure, the total product of labor for eight workers is: | |
| A) | 40 bushels. |
| B) | 35 bushels. |
| **C)** | **96 bushels.** |
| D) | 75 bushels. |

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| 4. | You own a small deli that produces sandwiches, soups, and other items for customers in your town. Which of the following is a decision most likely to be made in the long run at your deli? | |
| A) | You order more breadsticks from the local bakery. |
| B) | You ask your beverage distributor to deliver more soft drinks next week. |
| **C)** | **You renovate the second floor of your building to increase the size of the dining room.** |
| D) | You place a newspaper advertisement to attract part-time workers from the local college. |

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| 5. | Kaile Cakes produces 10 cakes per day. The marginal cost of the tenth cake is $24, and average total cost of 10 cakes is $6. The average total cost of 9 cakes is: | |
| **A)** | **$4.** |
| B) | $5. |
| C) | $6. |
| D) | $8. |

Use the following to answer question 6:

**Figure: Cost Curves**



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| 6. | (Figure: Cost Curves) The firm is producing at point *C* on the *ATC*2 but anticipates increasing output to 225 units in the long run. The firm will build a \_\_\_\_\_\_\_\_ plant and have \_\_\_\_\_\_\_\_. | |
| A) | smaller; economies of scale |
| B) | smaller; diseconomies of scale |
| C) | larger; economies of scale |
| **D)** | **larger; diseconomies of scale** |

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| 7. | Perfect competition is a model of the market that assumes all of the following *except:* | |
| A) | a large number of firms. |
| **B)** | **firms facing downward-sloping demand curves.** |
| C) | firms producing identical goods. |
| D) | many buyers. |

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| 8. | Zoe's Bakery operates in a perfectly competitive industry. The variable costs at Zoe's Bakery increase, so all of the cost curves (with the exception of fixed cost) shift leftward. The demand for Zoe's pastries does not change, nor does the firm shut down. To maximize profits after the variable cost increase, Zoe's Bakery will \_\_\_\_\_\_\_\_ its price and \_\_\_\_\_\_\_\_ its level of production. | |
| A) | raise; increase |
| B) | decrease; increase |
| C) | raise; decrease |
| **D)** | **do nothing to; decrease** |

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| 9. | The profit-maximizing level of output for a perfectly competitive firm in the short run occurs where: | |
| **A)** | **marginal cost equals price.** |
| B) | marginal revenue equals price. |
| C) | total revenue equals total cost. |
| D) | average revenue equals average total cost. |

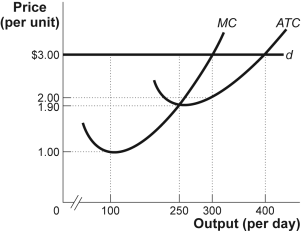
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| 10. | Zoe's Bakery operates in a perfectly competitive industry. When the market price of iced cupcakes is $5, the profit-maximizing output level is 150 cupcakes. Her average total cost is $4, and her average variable cost is $3. Zoe's marginal cost is \_\_\_\_\_\_\_\_, and her short-run profits are: | |
| **A)** | **$5; $150** |
| B) | $5; $300 |
| C) | $1; $150 |
| D) | $1; $300 |

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| 11. | If the price is greater than the average variable cost and less than the average total cost at the profit-maximizing quantity of output in the short run, a perfectly competitive firm will: | |
| **A)** | **produce at an economic loss.** |
| B) | produce at an economic profit. |
| C) | shut down production. |
| D) | produce more than the profit-maximizing quantity. |

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| 12. | Suppose that the market for candy canes operates under conditions of perfect competition, that it is initially in long-run equilibrium, and that the price of each candy cane is $0.10. Now suppose that the price of sugar rises, increasing the marginal and average total cost of producing candy canes by $0.05; there are no other changes in production costs. Based on the information given, we can conclude that once all of the adjustments to long-run equilibrium have been made, the price of candy canes will equal: | |
| A) | $0.05. |
| B) | $0.10. |
| **C)** | **$0.15.** |
| D) | The question is impossible to answer without knowing exactly how many firms entered and/or left the industry. |

Use the following to answer question 13:

**Figure: The Perfectly Competitive Firm**



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| 13. | (Figure: The Perfectly Competitive Firm) The firm faces demand curve *d,* has the cost curves shown, and maximizes profit. In a long-run equilibrium, this firm will produce \_\_\_\_\_\_\_\_ units of output and sell its output at a price of \_\_\_\_\_\_\_\_. | |
| A) | 100; $1 |
| **B)** | **250; $1.90** |
| C) | 300; $2 |
| D) | 400; $3 |

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| 14. | A natural monopoly exists whenever a single firm: | |
| A) | is owned and operated by the federal or local government. |
| B) | is investor owned but has been granted the exclusive right by the government to operate in a market. |
| **C)** | **has economies of scale over the entire range of production that is relevant to its market.** |
| D) | has gained control over a strategic input of an important production process. |

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| 15. | Situations in which the more users of a product there are, the more useful the product becomes are: | |
| **A)** | **network effects.** |
| B) | monopolies. |
| C) | conglomerates. |
| D) | exclusive franchises. |

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| 16. | Wendy has a monopoly in the retailing of motor homes. She can sell five per week at $21,000 each. If she wants to sell six, she can only charge $20,000 each. The price effect of selling the sixth motor home is: | |
| A) | $20,000. |
| B) | –$15,000. |
| **C)** | **–$5,000.** |
| D) | $25,000. |

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| 17. | Marginal revenue for a monopolist is: | |
| A) | equal to price. |
| B) | greater than price. |
| **C)** | **less than price.** |
| D) | equal to average revenue. |

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| 18. | Suppose a monopoly is producing at the level of output where marginal revenue equals marginal cost. If the monopolist reduces output, it: | |
| **A)** | **can charge a higher price.** |
| B) | will increase profits. |
| C) | will decrease marginal revenue. |
| D) | can charge a higher price and it will increase profits. |

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| 19. | A firm that is in an oligopoly knows that its \_\_\_\_\_\_\_\_ affect its \_\_\_\_\_\_\_\_ and that the \_\_\_\_\_\_\_\_ of its rivals will affect it. | |
| **A)** | **actions; rivals; reactions** |
| B) | price changes; total revenue in a positive way; reactions |
| C) | actions rarely; rivals; actions |
| D) | price increases; total revenue in the long run only; large but not small price changes |

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| 20. | A monopolistically competitive industry, such as corn snack chips, and a perfectly competitive industry, like wheat farming, are alike in that: | |
| A) | firms in both types of industries produce identical products. |
| B) | firms in both types of industries produce similar but not identical products. |
| C) | barriers to entry in both industries are large. |
| **D)** | **there are many firms in each industry.** |

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| 21. | The efficient rate of emissions occurs when: | |
| A) | there is absolutely no damage done to a pristine environment. |
| B) | government forces zero pollution to take place no matter what the cost. |
| C) | the marginal benefits of pollution exceed the marginal costs of pollution. |
| **D)** | **the change in benefits and the change in costs due to an additional unit of emissions are equal.** |

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| 22. | A negative externality: | |
| A) | is any cost above the economic cost. |
| B) | equals the social cost plus the firm's private cost. |
| **C)** | **is an uncompensated cost imposed by an individual or firm on others.** |
| D) | equals the opportunity cost minus the social costs. |

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| 23. | Oscar owns a meat processing plant whose unpleasant odors waft across the city. Because the production of processed meat provides a negative externality to the community, at the market equilibrium quantity, the marginal social: | |
| **A)** | **cost of processed meat exceeds the market price.** |
| B) | benefit of processed meat exceeds the market price. |
| C) | cost of processed meat is lower than the market price. |
| D) | benefit of processed meat is lower than the market price. |

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| 24. | Since the 1960s, power plants have taken actions, such as switching to low-sulfur coal and installing scrubbers in their smokestacks, which have significantly reduced the problem of acid rain. Power plants took these actions mainly because: | |
| A) | of concern about the environment. |
| B) | large firms in the United States have a history of being “good citizens” and doing what is best for society, even if this reduces their profits somewhat. |
| **C)** | **government policies provided power companies with incentives to take these actions.** |
| D) | of concern about the environment and because government policies provided power companies with incentives to take these actions. |

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| 25. | If drivers decide to make phone calls without considering the costs imposed on others, the: | |
| **A)** | **number of phone calls made while driving will be more than the socially optimal quantity.** |
| B) | number of phone calls made while driving will be fewer than the socially optimal quantity. |
| C) | marginal social cost curve will lie below the marginal cost of production curve. |
| **D)** | **marginal social benefit curve will lie below the marginal social cost curve.** |

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| 26. | An industry with production that generates external costs produces a quantity of output that is: | |
| A) | socially optimal. |
| B) | smaller than the socially optimal quantity. |
| **C)** | **larger than the socially optimal quantity.** |
| D) | socially optimal if a specific subsidy is given to buyers. |

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| 27. | If the marginal benefit received from pollution is greater than its marginal cost in a market, then: | |
| A) | society's well-being can be improved if the quantity of pollution decreases. |
| B) | firms in the market produce the socially optimal level of pollution. |
| C) | firms in the market produce too much pollution. |
| **D)** | **firms in the market produce too little pollution.** |

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| 28. | What do a rubbernecking traffic jam and the paradox of thrift have in common? | |
| **A)** | **In both cases, individual behavior has large negative consequences for the whole of society.** |
| B) | In both cases, seemingly bad behavior ends up harming everyone. |
| C) | In both cases, seemingly careless behavior leads to good times for all. |
| D) | In both cases, government intervention can only make matters worse. |

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| 29. | The widely held view that the government should take an active role in the macroeconomy dates to: | |
| A) | the Civil War. |
| B) | World War I. |
| **C)** | **the Great Depression.** |
| D) | the Vietnam War. |

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| 30. | The modern tools of macroeconomic policy are: | |
| A) | tax policy and antitrust policy. |
| **B)** | **fiscal policy and monetary policy.** |
| C) | monetary policy and exchange rate policy. |
| D) | capital policy and labor policy. |

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| 31. | In recent times, the U.S. government has been trying to help the economy through one of the worst economic slumps ever. The policies used are based on: | |
| **A)** | **Keynesian theory.** |
| B) | classical theory. |
| C) | supply-side theory. |
| D) | trickle-down theory. |

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| 32. | Suppose for the past several months, per capita output has increased, but at a slower and slower rate. Over the same period, the unemployment rate has been falling, but it appears to have leveled off and may soon rise. Where in the business cycle is the economy? | |
| **A)** | **a peak** |
| B) | a recession |
| C) | a trough |
| **D)** | **an expansion** |

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| 33. | The sequence of business cycle phases is: | |
| A) | peak, trough, expansion, recession. |
| B) | peak, expansion, trough, recession. |
| **C)** | **peak, recession, trough, expansion.** |
| D) | peak, expansion, recession, trough. |

**Answer Key**

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| 1. | D |
| 2. | B |
| 3. | C |
| 4. | C |
| 5. | A |
| 6. | D |
| 7. | B |
| 8. | D |
| 9. | A |
| 10. | A |
| 11. | A |
| 12. | C |
| 13. | B |
| 14. | C |
| 15. | A |
| 16. | C |
| 17. | C |
| 18. | A |
| 19. | A |
| 20. | D |
| 21. | D |
| 22. | C |
| 23. | A |
| 24. | C |
| 25. | A |
| 26. | C |
| 27. | D |
| 28. | A |
| 29. | C |
| 30. | B |
| 31. | A |
| 32. | A |
| 33. | C |