Midterm 2 Practice True or False Questions

Elements of Microeconomics - Section 4

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Chapter 8 - The Costs of Taxation

1. The introduction of a tax will always generate welfare loss. **False**
2. Placing a $5 tax on consumers will generate more revenue than placing a $5 tax on producers. **False**
3. The consumers contribution to the DWL will be higher than the producers and the consumers burden of the tax will be higher than producers if demand is relatively inelastic compared to supply. **True**

Chapter 22 - The Theory of Consumer Choice

1. It is possible to obtain equal utility from a bundle of 4 units of good A, and 5 units of good B, and a bundle of 6 units of good A, and 5 units of good B. **True**
2. Given the change in price of one good, the substitution effect can be positive for both goods. **False**
3. Given a chance in price of one good, it is possible to obtain the same utility as before the price change, even when indifference curves are neither perfectly horizontal nor vertical. **False**

Chapter 14 - The Costs of Production

1. We are experiencing diminishing marginal product if to make 450 sweaters in a day it costs $800, but to make 800 sweaters in a day costs $1500. **True**
2. If average fixed cost is always decreasing as quantity increases, then average total cost will also always decrease with quantity. **False**
3. Our long run cost of producing 28 cars is $5,350 but our long run cost of producing 50 cars is $10,510. We must be experiencing diseconomies of scale. **True**

Chapter 15 - Firms in Competitive Markets

1. All I need to calculate marginal revenue in a perfectly competitive market is total profit and quantity produced. **False**

2. I am producing 1800 cartoons of eggs in the perfectly competitive egg market. My total costs are $4500 and the rent for my chicken farm is $935. The market price for a cartoon of eggs is $2. I should shut down in the short run. **False**

3. I am a disposable plastic bottle water producer and the disposable plastic water bottle market is perfectly competitive. The market is in both short-run and long-run equilibrium. Suddenly, due to consumer environmental concerns, demand for these water bottles decreases. I am still covering my average variable costs in the short run but I should exit the market because I am going to lose money in the long run. **False**