ECON 2113 – Multiple-choice Practice Questions

Assume perfect competitive markets unless otherwise specified in the question.

Chap 1-2

1) In broad terms the difference between microeconomics and macroeconomics is that
A) they use different sets of tools and ideas.
B) microeconomics studies decisions of individual people and firms and macroeconomics studies the entire national economy.
C) macroeconomics studies the effects of government regulation and taxes on the price of individual goods and services whereas microeconomics does not.
D) microeconomics studies the effects of government taxes on the national unemployment rate.
Answer: B

2) Scarcity is a situation in which _____.
A) some people are poor and others are rich
B) something is being wasted
C) we are unable to satisfy all our wants
D) long lines form at gas stations
Answer: C

3) Factors of production include
A) the economic system.
B) land, labor, capital and entrepreneurship.
C) labor and capital (not land, which is fixed).
D) only capital, land, and labor.
Answer: B

4) An outcome is considered efficient if
A) it is not possible to make someone better off without making anyone else worse off.
B) it is the best available choice for an individual.
C) it results in fair shares for everyone involved.
D) it is possible to make someone better off without making anyone else worse off.
Answer: A

5) The opportunity cost of any action is
A) all the possible alternatives given up.

B) the highest-valued alternative given up.
C) the benefit from the action minus the cost of the action.
D) the dollars the action cost.
Answer: B

6) On Saturday morning, you rank your choices for activities in the following order: go to the library, work out at the gym, have breakfast with friends, and sleep late. Suppose you decide to go to the library. Your opportunity cost is
A) working out at the gym, having breakfast with friends, and sleeping late.
B) working out at the gym.
C) zero because you do not have to pay money to use the library.
D) not clear because not enough information is given.
Answer: B

7) Joe likes to sleep late in the mornings and play tennis in the afternoons. The opportunity cost of Joe attending his morning class for one hour is
A) an hour of tennis given up.
B) an hour of sleep given up.
C) both the tennis given up and the sleep given up.
D) nothing because he is paying for his class.
Answer: B

8) Your employer has asked you to start working overtime and has offered to pay $18 per hour for every hour you work beyond forty hours a week. The wage rate for each of the first forty hours will continue to be the usual $15 per hour. In terms of dollars, what is the marginal benefit of working each hour of overtime?
A) zero
B) $3.00
C) $15.00
D) $18.00
Answer: D

9) Laura is a manager for HP. When Laura must decide whether to produce a few additional printers, she is choosing at the margin when she compares
A) the total revenue from sales of printers to the total cost of producing all the printers.
B) the extra revenue from selling a few additional printers to the extra costs of producing the printers.
C) the extra revenue from selling a few additional printers to the average cost of producing the additional printers.

D) HP's printers to printers from competing companies, such as Lexmark.
Answer: B

10) A store remains open from 8 a.m. to 4 p.m. each weekday. The store owner is deciding whether to stay open an extra hour each evening. The owner's marginal benefit
A) is the benefit the owner receives from staying open from 8 a.m. to 5 pm.
B) depends on the revenues the owner makes during the day.
C) must be greater than or equal to the owner's marginal cost if the owner decides to stay open.
D) is the benefit the owner receives from staying open from 8 a.m. to 6 pm.
Answer: C

11) Which of the following are TRUE regarding "positive" statements?
I. They describe what "ought to be."
II. They describe what is believed about how the world appears.
III. They can be tested as to their accuracy.
A) I and II
B) II and III
C) I and III
D) I, II and III
Answer: B

12) Which of the following is a positive statement?
A) People buy more of a good or service when its price falls.
B) The distribution of income is fair.
C) The government ought to provide health care to everyone.
D) Corporations should be more socially responsible.
Answer: A

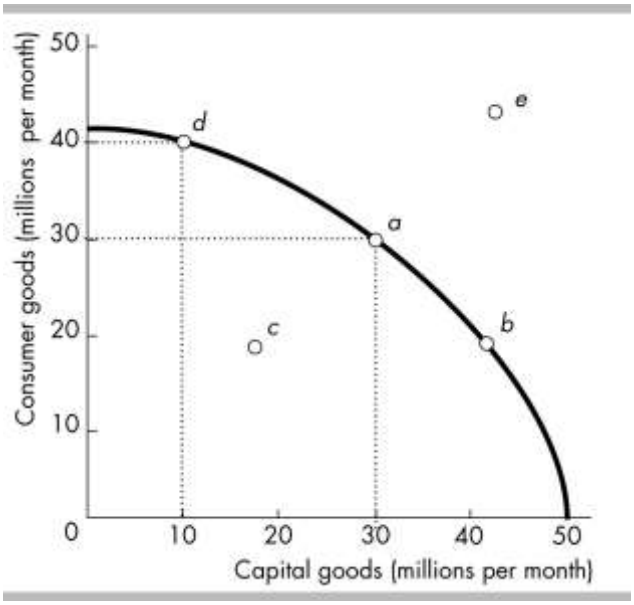
13) The production possibilities frontier itself shows
A) the maximum amount of resources available at any given time.
B) combinations of goods and services that do not fully use available resources.
C) the maximum rate of growth of output possible for an economy.
D) the maximum levels of production that can be attained.
Answer: D

14) A production possibilities frontier figure does NOT illustrate
A) the limits on production imposed by our limited resources and technology.
B) the exchange of one good or service for another.

C) opportunity cost.
D) attainable and unattainable points.
Answer: B

15) A reduction in the amount of unemployment
A) shifts the production possibilities frontier outward.
B) moves the economy's point of production closer to the production possibilities frontier.
C) moves the economy's point of production along the production possibilities frontier.
D) moves the economy's point of production further away from the production possibilities frontier.
Answer: B

16) While producing on the production possibilities frontier, if additional units of a good could be produced at a constant opportunity cost, the production possibilities frontier would be
A) bowed outward.
B) bowed inward.
C) positively sloped.
D) a straight line.
Answer: D



17) Refer to the production possibilities frontier in the figure above. Which production point indicates that resources are NOT fully utilized or are misallocated?
A) point *a*
B) point *b*
C) point *c*

D) point *e*
Answer: C

18) Refer to the production possibilities frontier in the figure above. Which production point is unattainable?
A) point *a*
B) point *b*
C) point *c*
D) point *e*
Answer: D

19) In the figure above, moving from production at point *d* to production at point *a* requires
A) technological change.
B) a decrease in unemployment.
C) decreasing the output of consumer goods in order to boost the output of capital goods.
D) both capital accumulation and a decrease in unemployment.
Answer: C

20) Refer to the production possibilities frontier in the figure above. If the country moves from point *a* to point *d*, the opportunity cost of the move is
A) 30 million capital goods.
B) 20 million capital goods.
C) 10 million capital goods.
D) 10 million consumption goods.
Answer: B

21) At one point along a *PPF*, 40 tons of wheat are produced while 80 tons of rice are produced. At another point along the same *PPF*, 41 tons of wheat are produced while 70 tons of rice are produced. The opportunity cost of producing a ton of wheat between these points is _____ per ton of wheat.
A) 1/2 ton of rice
B) 10 tons of rice
C) 1/10 ton of rice
D) 4/7 ton of rice
Answer: B

Point	Production of X	Production of Y
A	0	40
B	3	36

C	6	28
D	9	16
E	12	0

22) The above table shows production combinations on a country's production possibilities frontier. Which of the following is an example of a point that is unattainable?
A) 0 units of good X and 40 units of good Y
B) 6 units of good X and 28 units of good Y
C) 10 units of good X and 16 units of good Y
D) 3 units of good X and 35 units of good Y
Answer: C

23) The above table shows production combinations on a country's production possibilities frontier. Which of the following is an example of a production point that is inefficient?
A) 0 units of good X and 40 units of good Y
B) 6 units of good X and 28 units of good Y
C) 10 units of good X and 16 units of good Y
D) 3 units of good X and 35 units of good Y
Answer: D

24) The above table shows production combinations on a country's production possibilities frontier. Which of the following points signifies efficient production?
A) 0 units of good X and 40 units of good Y
B) 3 units of good X and 25 units of good Y
C) 10 units of good X and 16 units of good Y
D) 12 units of good X and 1 unit of good Y
Answer: A

25) The above table shows production combinations on a country's production possibilities frontier. The opportunity cost of increasing the production of Y from 16 to 28 units is _____ units of good X.
A) 12
B) 6
C) 3
D) There is no opportunity cost when moving from one point to another along a production possibilities frontier so none of the above answers is correct.
Answer: C

26) The above table shows production combinations on a country's production possibilities frontier. What is the opportunity cost of *one* unit of Y when the production of good Y increases from 16 to 28 units?
A) 4 units of good X per unit of good Y
B) 3 units of good X per unit of good Y
C) 1/4 unit of good X per unit of good Y
D) There is no opportunity cost when moving from one point to another along a production possibilities frontier.
Answer: C

27) The above table shows production combinations on a country's production possibilities frontier. What is the opportunity cost of increasing the production of X from 0 to 3 units?
A) 40 units of good Y per unit of good X
B) 3 units of good Y per unit of good X
C) 4/3 units of good Y per unit of good X
D) 0 units of good Y per unit of good X
Answer: C

28) The above table shows production combinations on a country's production possibilities frontier. A movement from _____ involves the *greatest* opportunity cost of increasing the production of good Y.
A) point E to point D
B) point D to point C
C) point C to point B
D) point B to point A
Answer: D

29) Claire and Dag are farmers who produce beef and corn. In a year, Claire can produce 16 tons of beef or 40 bushels of corn, while Dag can produce 5 tons of beef or 25 bushels of corn. The opportunity cost of producing a ton of beef is
A) 10 bushels of corn for Dag and 8 bushels of corn for Claire.
B) 5 bushels of corn for Dag and 2.5 bushels of corn for Claire.
C) 20 bushels of corn for Dag and 50 bushels of corn for Claire.
D) 36.5 days for Dag and 45.6 days for Claire.
Answer: B

30) An opportunity cost of economic growth is
A) essentially zero because economic growth leads to such large gains in the long run.

B) the decrease in production of consumption goods in the present time period.
C) decreased by the creation of capital goods rather than consumption goods.
D) so high that places such as Hong Kong have had to do without it.
Answer: B

31) The kitchen manager at an Italian restaurant is deciding what assignments he should give to his two cooks, John and David. John can make 25 pizzas or 40 servings of pasta per hour and David can make 20 pizzas or 30 servings of pasta. Which of the following should be the manager's choice?
A) Fire David because he is not as productive as John. John will do both jobs.
B) John will make pizza because he has comparative advantage in making pizza.
C) David will make pizza because he has comparative advantage in making pizza.
D) John and David both will spend half their time making pizza and half their time making pasta because each has a comparative advantage in making pizza.
Answer: C

32) One of the largest categories of exports from the United States is now pop culture: movies, music, TV programming, and videos. A direct conclusion from this information is that, compared to other countries, the United States has
A) lower wages for producers of pop culture.
B) higher wages for producers of pop culture.
C) an absolute advantage in producing pop culture.
D) a comparative advantage in producing pop culture.
Answer: D

33) Suppose that a typical German factory can produce 20 cameras or 1 computer in an hour, and that a typical American factory can produce 10 cameras or one computer in an hour. Germany wishes to purchase computers from the United States in exchange for cameras. What is the maximum number of cameras per computer that Germany would be willing to pay the United States?
A) 10 cameras per computer
B) 20 cameras per computer
C) 1 camera per computer
D) 2 cameras per computer
Answer: B

Chap 3-4

34) The price of a DVD rental is $2.50 and the price of a downloaded movie is $1.00. If the price of a DVD rental falls by $0.50, the relative price a downloaded movie

A) rises.
B) falls.
C) does not change.
D) might change but more information is needed.
Answer: A

35) A changes in which of the following shifts the demand curve for hamburgers?
A) an increase in the price of the meat used to produce hamburgers
B) an increase in the price of a hamburger
C) a fall in the price of french fries, a complement for hamburgers
D) an increase in the number of hamburger restaurants
Answer: C

36) The observation that the demand curve for grape jelly shifts rightward every time the price of peanut butter falls means that grape jelly and peanut butter are
A) complements.
B) substitutes.
C) inferior goods.
D) normal goods.
Answer: A

37) Which of the following does NOT shift the demand curve for broccoli?
A) an increase in the cost of fertilizer used to grow broccoli
B) a warning by the U.S. Surgeon General that broccoli causes schizophrenia
C) an increase in the price of spinach, a substitute for broccoli, because rodents gobbled up much of this year's spinach crop
D) a decrease in the price of spinach, a substitute for broccoli, because of a bumper crop of spinach this year
Answer: A

38) Cable television companies must pay increased charges by the networks for the programs the cable companies carry. As a result, the price of cable television rises. Thus
A) the demand curve for cable television service shifts rightward.
B) the demand curve for cable television service shifts leftward.
C) there is a movement down the demand curve for cable television to a higher quantity demanded.
D) there is a movement up the demand curve for cable television to a smaller quantity demanded.
Answer: D

39) Each point on a supply curve represents
A) the highest price buyers will pay for the good.
B) the lowest price for which a supplier can profitably sell another unit.
C) the lowest price buyers will accept per unit of the good.
D) the highest price sellers can get for each unit over time.
Answer: B

40) A bakery can produce either cakes or cookies. If the price of cookies rises, then
A) the supply curve of cake shifts leftward.
B) the supply curve of cake shifts rightward.
C) there is a movement downward along the supply curve of cakes.
D) there is a movement upward along the supply curve of cakes.
Answer: A

41) Which of the following does NOT shift the supply curve?
A) a technological advance
B) a decrease in the wages of labor used in production of the good
C) a fall in the price of a substitute in production
D) an increase in the price of the good
Answer: D

42) In March, the quantity of orange juice sold in the town of Jackson was 3000 cartons and the price $3. In May, the quantity of orange juice sold in the town of Jackson was 3500 cartons and the price was $3.20. This change in the price and quantity sold could have been the result of
A) the release of a medical study suggesting that consuming orange juice helps prevent cancer.
B) a reduction in the number of orange juice coupons provided by local markets.
C) the after effects of a cold winter in Florida that killed half of the orange crop.
D) the after effects of a warm winter in Florida that increased the orange crop yield by 50 percent.
Answer: A

43) Leather belts and leather shoes are substitutes in production. If style changes increase the demand for leather belts, the supply curve of leather shoes will shift
A) leftward and the equilibrium price of leather shoes will fall.
B) leftward and the equilibrium price of leather shoes will rise.
C) rightward and the equilibrium price of leather shoes will fall.
D) rightward and the equilibrium price of leather shoes will rise.
Answer: B

44) There is a technological advance in the production of a good and simultaneously also an increase in the expected future price. Which of the following will happen?
A) The equilibrium price will rise because the supply curve shifts rightward.
B) The equilibrium price falls because the supply curve shifts leftward.
C) The technological improvement shifts the supply curve rightward while the increase in the expected future price shifts the supply curve leftward. The net effect is not known.
D) The demand curve shifts rightward and the supply curve does not shift.
Answer: C

45) Which of the following increases the equilibrium price of a used car and decreases the equilibrium quantity?
A) an announcement by the U.S. Attorney General that the windows on older cars were made with cheaper glass that can explode at high speeds
B) new federal legislation that raises the legal driving age to twenty-four in all states
C) a new fee that used car dealers must pay to the government on all sales of used cars
D) all of the above because each is consistent with the "law of demand"
Answer: C

46) The equilibrium quantity of a good will increase and its equilibrium price might rise, fall, or stay the same when
A) its demand and supply both increase.
B) its demand increases and supply decreases.
C) its demand decreases and supply increases.
D) its demand and supply both decrease.
Answer: A

47) Between 2000 and 2015, advances in PC production technology increased the supply of PCs sharply. The demand for PCs also increased, but not nearly as much as the supply did. As a result, the price of a PC _____ and the quantity of PCs sold _____.
A) rose; decreased
B) rose; increased
C) fell; decreased
D) fell; increased
Answer: D

48) When the quantity of coal is measured in kilograms instead of pounds, the demand for coal becomes
A) more elastic.

B) less elastic.
C) neither more nor less elastic.
D) undefined.
Answer: C

49) The price elasticity of demand for oil is estimated at 0.05. This value means a 10 percent increase in the
A) quantity of oil demanded will result from a 0.5 percent increase in the price of oil.
B) quantity of oil demanded will result from a 0.5 percent decrease in the price of oil.
C) price of oil will increase the quantity of oil demanded by 0.5 percent.
D) price of oil will decrease the quantity of oil demanded by 0.5 percent.
Answer: D

50) Suppose a rise in the price of peaches from $5.50 to $6.50 per bushel decreases the quantity demanded from 12,500 to 11,500 bushels. The price elasticity of demand is
A) 0.5.
B) 1.0.
C) 2.0.
D) 1000.0.
Answer: A

51) The price elasticity of demand is 5.0 if a 10 percent increase in the price results in a _____ decrease in the quantity demanded.
A) 2 percent
B) 5 percent
C) 10 percent
D) 50 percent
Answer: D

52) If the demand for a good is perfectly elastic, the price elasticity of demand is _____ and the demand curve is _____.
A) infinite; vertical
B) zero; vertical
C) zero; horizontal
D) infinite; horizontal
Answer: D

53) A straight-line demand curve with negative slope intersects the horizontal axis at 200 tons per

week. The point on the demand curve at which the price elasticity of demand is 1 corresponds to a quantity demanded
A) of 0 tons.
B) of 100 tons.
C) of 200 tons.
D) that would be negative if a negative quantity demanded were possible.
Answer: B

54) To maximize its revenue
A) a firm facing inelastic demand should always raise its price.
B) a firm facing elastic demand should always raise its price.
C) a firm should always charge the highest price possible regardless of the elasticity of demand.
D) None of the above answers is correct.
Answer: A

55) If Sam wants to increase her total revenue from her sales of flowers and she knows that the demand for flowers is price inelastic, she should
A) lower her price to increase the demand and shift the demand curve rightward.
B) raise her price because she knows that the quantity demanded will also increase.
C) raise her price because she knows that the percentage decrease in the quantity demanded will be smaller than the percentage increase in price.
D) lower her price because she knows that the percentage increase in the quantity demanded will be greater than the percentage decrease in price.
Answer: C

56) Which of the following statements is FALSE?
A) Goods or services that have few close substitutes generally have a less elastic demand.
B) Goods or services for which a greater proportion of income is spent on the item generally have a more elastic demand.
C) A narrowly defined good or service generally has a less elastic demand.
D) The longer the time that has elapsed since a price change, the more elastic the demand.
Answer: C

57) If a 5 percent increase in the price of good A leads to a 4 percent decrease in the demand for good B, then _____.
A) the goods are substitutes
B) only one good is a normal good
C) the goods are complements

D) both goods are normal goods
Answer: C

58) The income elasticity of demand is largest for
A) food.
B) clothing.
C) shelter.
D) luxuries.
Answer: D

59) The demand for corn increases. As a result, the price of corn will _____, and the less elastic the supply of corn, the _____ will be the effect on the price.
A) fall; smaller
B) fall; greater
C) rise; smaller
D) rise; greater
Answer: D

60) Apple, the consumer electronics giant, on Tuesday rolled out new versions of its popular iPhone. The CEO decided to decrease the price of iPhones in an attempt to increase total revenue from iPhone sales. One of his employees, Jess, disagrees and suggests that an iPhone price increase will increase total revenue. Who is CORRECT?
A) The CEO is correct if demand is price elastic.
B) The CEO is correct if demand is price inelastic.
C) Jess is correct if demand is price elastic.
D) Jess is correct if demand is unit elastic.
Answer: A

Chap 5-6

1) Which of the following is TRUE?
A) Lotteries work best when a resource can serve just one user at a time in a sequence.
B) A market price always allocates resources better than a command system.
C) In the United States, how tax dollars are allocated among competing uses is an example of how resources are allocated by majority rule.
D) Force has never played an important role in allocating scarce resources.
Answer: C

2) The value of a good is equal to the
A) maximum price you are willing to pay for it.
B) price that you actually pay for it.
C) price you actually pay for it minus the maximum you are willing to pay for it.
D) maximum you are willing to pay for it minus the price you actually pay for it.
Answer: A

3) The market demand curve for iPads is the _____ of all the individual demand curves for iPads.
A) horizontal product
B) horizontal sum
C) vertical sum
D) vertical product
Answer: B

4) For many years short wave radios were a way of getting news from faraway places and in difficult conditions. But as new technologies have spread, the people listening to these devices has decreased. *(Source: The Economist, July 7, 2012)*
As new technology creates substitutes for short-wave radios, the demand for short-wave radios _____ and the consumer surplus from short-wave radios _____.
A) increases; increases
B) decreases; decreases
C) does not change; decreases
D) decreases; does not change
Answer: B

5) When the Smiths were shopping for their present home, the asking price from the previous owner was $250,000.00. The Smiths had decided they would pay no more than $245,000.00 for the house. After negotiations, the Smiths actually purchased the house for $239,000.00. They, therefore, enjoyed a consumer surplus of
A) $239,000.00.
B) $5,000.00.
C) $6,000.00.
D) $11,000.00.
Answer: C

6) Marginal cost is
A) the same as the marginal benefit because producers benefit from the money they receive when they sell the good.

B) the opportunity cost of producing one more unit.
C) the total opportunity cost of producing all the units of the good.
D) zero at the efficient level of production.
Answer: B

7) The supply curve for CDs shows the
A) minimum price that consumers are willing to pay if a given quantity of CDs is available.
B) maximum price that consumers are willing to pay if a given quantity of CDs is available.
C) maximum price that producers must be offered to get them to produce a given quantity of CDs.
D) minimum price that producers must be offered to get them to produce a given quantity of CDs.
Answer: D

8) When the Smiths were shopping for their present home, the asking price from the previous owner was $250,000.00. The Smiths had decided they would pay no more than $245,000.00 for the house. After negotiations, the Smiths actually purchased the house for $239,000.00. Therefore, the previous owner earned a producer surplus of
A) $250,000.00.
B) $11,000.00.
C) $5,000.00.
D) an amount unknown given the information in the question.
Answer: D

9) Suppose there are four firms that are each willing to sell one unit of a good. Each firm has a different minimum price that they are willing to sell for: Firm A $6, Firm B $7, Firm C $10, and Firm D $12. If the market price is $11, then the total producer surplus is
A) $10.
B) $11.
C) $33.
D) $9.
Answer: A

10) It is efficient to produce an additional shirt if the
A) marginal social benefit of producing the shirt is greater than zero.
B) marginal social benefit of producing the shirt is zero.
C) marginal social benefit of producing the shirt is greater than the marginal social cost of producing it.
D) total social benefit from producing shirts is maximized.
Answer: C

11) In the market for DVDs, 500,000 DVDs a month are available. The value people place on the 500,000th DVD a month is less than the marginal social cost of producing it. Resource use _____.
A) is efficient
B) is inefficient
C) would be more efficient if people firms would produce more DVDs
D) would be more efficient if people would buy more DVDs
Answer: B

12) At the current level of output, the marginal social benefit from a slice of pizza is less than the marginal social cost of producing a slice of pizza. Resources will be used more efficiently if _____ slices of pizza are produced and _____ other goods are produced.
A) fewer; fewer
B) more; fewer
C) more; more
D) fewer; more
Answer: D

13) If the marginal cost of producing every quantity decreases, all the following occur EXCEPT
A) minimum supply price does not change.
B) the marginal social benefit of the last unit bought changes.
C) the consumer surplus increases.
D) the efficient quantity increases.
Answer: A

14) Adam Smith argued that each person in a competitive market is led to promote the
A) efficient use of society's resources, because each person's intention is to make society better off.
B) efficient use of society's resources, even though it is no person's intention to make society better off.
C) inefficient use of society's resources, even though each person's intention is to make society better off.
D) inefficient use of society's resources, because it is no person's intention to make society better off.
Answer: B

15) Overproduction compared to the efficient amount implies that for the last unit produced
A) marginal social benefit exceeds marginal social cost.
B) marginal social benefit equals marginal social cost.
C) marginal social cost exceeds marginal social benefit.
D) the deadweight loss is zero.
Answer: C

16) Meat at the supermarket has contributed to increase in food prices in 2010, and high feed and fuel prices mean that steak will likely cost a lot more this fall. The price of feed has increased 50 percent and hay has doubled from two years ago. Based on this information, which of the following is NOT true in the market for beef?
A) The consumer surplus will decrease.
B) The equilibrium quantity will increase.
C) The total surplus will decrease.
D) The equilibrium price will increase.
Answer: B

17) A rent ceiling set above the equilibrium rent
A) decreases the quantity demanded but not the quantity supplied.
B) decreases the quantity supplied but not the quantity demanded.
C) decreases both the quantity demanded and the quantity supplied.
D) has no effect on the market outcome.
Answer: D

18) A rent ceiling results in a shortage. As a result, which of the following do you expect?
A) The shortage will persist as long as the ceiling is in effect.
B) Discrimination as landlords choose their tenants, possibly based on race, age, or gender.
C) A black market for apartments whereby higher rents are obtained through various other charges.
D) All of the above would be expected.
Answer: D

19) When a rent ceiling is imposed in a housing market, the opportunity cost of housing equals the
A) rent.
B) market equilibrium rent that would prevail in the absence of a rent ceiling.
C) value of the time and resources spent searching plus the rent.
D) consumer surplus.
Answer: C

20) A minimum wage set above the equilibrium wage rate is a price
A) ceiling that results in a shortage of low-skilled labor.
B) ceiling that results in a surplus of low-skilled labor.
C) floor that results in a shortage of low-skilled labor.
D) floor that results in a surplus of low-skilled labor.
Answer: D

21) If a minimum wage is set above the equilibrium wage rate, employment
A) will increase.
B) will not change.
C) will decrease.
D) may increase, decrease or not change depending on how the supply of labor is affected by the minimum wage.
Answer: C

Wage rate (dollars per hour)	Labor supplied (millions of workers)	Labor demanded (millions of workers
11	6	4
10	5	5
9	4	6
8	3	7
7	2	8

22) In the table above, what is the equilibrium wage rate in an unregulated market?
A) $8.00 per hour
B) $9.00 per hour
C) $10.00 per hour
D) $11.00 per hour
Answer: C

23) In the table above, what is the level of unemployment (in millions of workers) if the minimum wage is set at $8 per hour?
A) 0
B) 1
C) 3
D) 4
Answer: A

24) In the table above, the market is in equilibrium. Then a minimum wage is set at $11 per hour. The number of unemployed workers will be
A) 0.
B) 2 million.

C) 4 million.
D) 6 million.
Answer: B

25) In the table above, the market is in equilibrium. Then a minimum wage is set at $11 per hour. The number of workers who lose their jobs will be
A) 0.
B) 1 million.
C) 3 million.
D) 5 million.
Answer: B

26) When a sales tax is imposed on sellers, the supply curve shifts so that the vertical distance between the old and the new supply curve equals the
A) sales tax multiplied by the price elasticity of demand.
B) sales tax multiplied by the price elasticity of supply.
C) amount of the sales tax.
D) sales tax divided by the price elasticity of demand.
Answer: C

27) The supply of oil is more elastic than the demand for oil. If oil is taxed $10 per barrel, how will the tax be divided between the buyers and sellers?
A) The sellers will pay more of the tax than the buyers.
B) The buyers will pay more of the tax than the sellers.
C) The sellers and buyers will split the tax evenly.
D) The sellers will pay the entire tax.
Answer: B

28) The government imposes a sales tax on hot dogs. The tax would be paid entirely by the hot dog buyers if the
A) supply is perfectly elastic.
B) supply is perfectly inelastic.
C) demand is perfectly elastic.
D) None of the above answers is correct.
Answer: A

Two small California cities, Richmond and El Monte, are planning to impose a penny per ounce tax on sugary drinks. They are being opposed by the soda industry that is vehemently against this new

legislation. *(Source: Reuters, September 6, 2012)*

29) One reason why soda companies are so fervently against this tax might be because they assume sellers will pay the entire tax. Sellers will pay the entire tax if
A) demand is perfectly inelastic.
B) the price elasticity of demand is between zero and 1.
C) demand is unit elastic.
D) demand is perfectly elastic.
Answer: D

Chap 8-9

30) Suppose Jill's consumption bundle is made up of 2 goods, apples and bottles of juice. If the price of an apple increases, then Jill's budget line would
A) not change.
B) shift towards the origin on the apples axis only.
C) shift towards the origin on both the apples and bottles of juice axes.
D) shift away from the origin on the bottles of juice axis only.
Answer: B

31) Which of the following statements is TRUE?
A) As more of a good is consumed, its total utility increases, unless the good is subject to diminishing marginal utility.
B) As more of a good is consumed, its total utility increases, even if the good is subject to diminishing marginal utility.
C) No two people have identical utility functions, just as no two people have identical fingerprints.
D) Both A and C above.
Answer: B

32) Which of the following is NOT an assumption of marginal utility theory?
A) A consumer derives utility from the goods consumed.
B) Each additional unit of consumption yields additional utility.
C) Consumers maximize their total utility.
D) As more of a good is consumed, the decrease in the marginal utility from the good means that the total utility from the good decreases also.
Answer: D

33) Liz's marginal utility for two different goods is determined by

A) her average utility for the two goods.
B) how much benefit she gets from another unit of each of those goods.
C) summing her total utility from consumption of each good and then dividing by two.
D) All of the above answers are correct.
Answer: B

34) The total utility you get from eating slices of pizza on a given night is the
A) marginal utility of the last slice times the total number of slices eaten.
B) sum of the differences in marginal utility as you increase the number of slices eaten.
C) sum of the marginal utilities of all slices eaten.
D) sum of the marginal utilities per dollar spent on all slices eaten.
Answer: C

35) A decrease in consumption will result in
A) both total utility and marginal utility decreasing.
B) total utility increasing, but marginal utility decreasing.
C) total utility decreasing, but marginal utility increasing.
D) both total utility and marginal utility increasing.
Answer: C

36) When a consumer spends all of his or her income and consumes a bundle of goods such that the marginal utility per dollar from all goods is equal, then the
A) consumer's total utility is maximized.
B) consumer is in his or her consumption equilibrium.
C) marginal utilities for *each* good are maximized.
D) Both answers A and B are correct.
Answer: D

37) Danny has $12 to spend on two goods: pies and soda. The price of a pie is $4, and the price of a can of soda is $2. To maximize his utility, Danny buys _____.
A) the combination that gives him equal total utility from pies and soda
B) 2 pies and 2 cans of soda
C) only sodas because they are less expensive
D) the combination that gives him the same marginal utility per dollar spent on pies as on soda
Answer: D

Marginal Utility

Servings per	Chicken	Fish

week		
1	70	45
2	60	40
3	50	35
4	40	30
5	30	25

38) Lily has $10 to spend each week on fish and chicken. Fish costs $2 a serving and chicken costs $3 a serving. The table shows Lily's marginal utilities of fish and chicken. Lily will consume _____ servings of chicken and _____ of fish each week.
A) 4; 0
B) 1; 3
C) 0; 5
D) 2; 2
Answer: D

39) Keesha consumes only milkshakes and burgers. Once at her consumer equilibrium, what would happen if she changed her consumption by purchasing one more milkshake and one fewer burger?
A) The marginal utility of a burger would decrease.
B) The marginal utility of a milkshake would increase.
C) The total utility from the consumption of both goods would decrease.
D) all of the above
Answer: C

40) Sam spends all of his income on textbooks and hot dogs. The price of a textbook is $40 and the price of a hot dog is $0.50. If Sam is maximizing his utility and the marginal utility he derives from the last textbook he purchases is 400, then the marginal utility he derives from his last hot dog purchased must be
A) 400.
B) 10.
C) 5.
D) 20.
Answer: C

41) Bianca consumes pizza. Marginal utility theory predicts that when the price of pizza increases
A) Bianca's total utility from pizza will increase.
B) Bianca will buy less pizza.
C) Bianca's marginal utility from pizza will increase.

D) Bianca's demand curve for pizza will shift leftward.
Answer: B

42) Marginal utility theory predicts that as the price of coffee rises, the _____ a substitute for coffee _____ and the _____ coffee _____.
A) supply of; increases; demand for; decreases
B) supply of; decreases; supply of; increases
C) demand for; increases; quantity demanded of; decreases
D) demand for; decreases; demand for; increases
Answer: C

43) Marginal utility theory predicts that
A) when the price of a good rises, the quantity demanded of that good decreases.
B) if the price of one good rises, the demand for a substitute good increases.
C) if income increases, the demand for a normal good increases.
D) All of the above answers are correct because all are predictions of marginal utility theory.
Answer: D

44) With respect to water and diamonds, water
A) has a higher marginal utility than diamonds.
B) has a lower marginal utility than diamonds.
C) is cheaper than diamonds because it has a lower total utility.
D) is cheaper than diamonds because it has a higher total utility.
Answer: B

45) Michael consumes only steak and lobster. Suppose that the price of steak rises. After Michael is back at equilibrium, compared to the situation when steak was cheaper, the marginal utility from the last steak will
A) have increased.
B) not have changed.
C) have decreased.
D) not be comparable with the marginal utility before the price hike.
Answer: A

46) Which of the following factors is NOT part of the budget equation?
A) relative prices
B) real income
C) quantities of goods

D) preferences
Answer: D

47) Hilda buys only cauliflower, Q_C, and geraniums, Q_g. The equation for Hilda's initial budget line is $\$40 = \$2 \times Q_C + \$4 \times Q_g$. If Hilda's income increases by \$20, the price of cauliflower decreases by \$1, and the price of geraniums increases by \$1, the equation of her new budget line is _____.
A) $\$60 = \$1 \times Q_C + \$5 \times Q_g$
B) $\$60 + \$1 \times Q_C = \$5 \times Q_g$
C) $\$0 = \$60 + \$1 \times Q_C + \$5 \times Q_g$
D) $\$60 = \$5 \times Q_C - \$1 \times Q_g$
Answer: A

In 2012, the Associated Press examined the effect higher gas prices on consumption of other goods. It said that the increase in the price of gasoline has decreased the quantity of other goods, such as food, that people consume. *(Source: Associated Press, September 28, 2012)*

48) If consumers spend their income either on gasoline or food, then an increase in the price of gasoline rotates the budget line
A) inward along the "food" axis.
B) outward along the "food" axis.
C) inward along the "gasoline" axis.
D) outward along the "gasoline" axis.
Answer: A

49) If the price of gasoline increases and the price of food remains the same, then real income measured in terms of
A) gasoline increases.
B) gasoline decreases.
C) food increases.
D) food decreases.
Answer: B

50) The magnitude of the slope of the budget line measures the
A) opportunity cost of the good on the horizontal axis in terms of the good on the vertical axis.
B) opportunity cost of the good on the vertical axis in terms of the good on the horizontal axis.
C) price elasticity of demand.
D) price elasticity of supply.
Answer: A

51) Jake spends $200 on fried chickens and Pepsi. The price of a fried chicken is $5 and Pepsi is $2.50 per bottle. With the quantity of Pepsi being measured along the vertical axis, the slope of Jake's budget line is _____ per fried chicken.
A) 0.5 of a Pepsi
B) -0.5 of a Pepsi
C) 2 Pepsis
D) -2 Pepsis
Answer: D

52) Which of the following statements is FALSE?
A) A consumer has only one indifference curve.
B) A consumer possesses a preference map.
C) An indifference curve is a curve that shows the combination of goods among which a consumer is indifferent.
D) The marginal rate of substitution is the rate at which a consumer will give up good *y* to get more of good *x* and remain on the same indifference curve.
Answer: A

53) _____ on an indifference curve that is farther from the origin _____ on an indifference curve that is closer to the origin.
A) Some combinations; are preferred to some combinations
B) Any combination; is preferred to any combination
C) Most combinations; are preferred to all combinations
D) Combinations; are not as affordable as combinations
Answer: B

54) Except for perfect complements, an indifference curve has a _____ slope and becomes _____ moving to the right.
A) negative; flatter
B) negative; steeper
C) positive; flatter
D) positive; steeper
Answer: A

55) The magnitude of the slope of an indifference curve
A) is equal to the marginal rate of substitution.
B) always equals the relative price of the product measured along the horizontal axis.

C) increases as income increases.
D) decreases when income increases.
Answer: A

56) An indifference diagram has movies on the vertical axis and sodas on the horizontal axis. As the consumption of sodas increases, the marginal rate of substitution _____ and the indifference curve becomes _____.
A) falls; flatter
B) falls; steeper
C) rises; flatter
D) rises; steeper
Answer: A

57) If an indifference curve is a straight line it will not show which of the following?
A) any marginal rate of substitution
B) diminishing marginal rate of substitution
C) combinations of goods among which a consumer is indifferent
D) None of the above answers is correct.
Answer: B

58) When the consumer is at his or her best affordable consumption point, it is the case that the marginal rate of substitution is
A) greater than the price ratio.
B) equal to the price ratio.
C) less than the price ratio.
D) maximized.
Answer: B

59) The substitution effect reflects a movement along a given
A) horizontal line.
B) vertical line.
C) indifference curve.
D) budget line.
Answer: C

60) If consumers spend their money only on beef and vegetables, then the substitution effect of an increase in the price of beef would result in consuming _____ beef and _____ vegetables.
A) more; more

B) less; fewer
C) more; fewer
D) less; more
Answer: D

61) Wendy spends $30 a week on movies and magazines. The price of a movie is $8, the price of a magazine is $2, and Wendy sees 3 movies a week and buys 3 magazines. The price of a magazine now increases to $4 and Wendy's brother gives her $6 a week so that she can still see 3 movies a week and buy 3 magazines. In this situation, Wendy will see _____ movies and buy _____ magazines.
A) 3; 3
B) less than 3; less than 3
C) more than 3; fewer than 3
D) less than 3; more than 3
Answer: C

Chap 10-11

62) Which of the following costs are part of a firm's opportunity costs?
I. costs for resources bought in markets
II. costs for resources the firm owns
III. costs for resources supplied by the owner
A) I and II
B) I and III
C) I only
D) I, II, and III
Answer: D

63) Which of the following is part of a firm's opportunity costs?
I. wages
II. utility costs
III. interest on a bank loan
IV. interest forgone on funds used to buy capital equipment
A) I and II
B) III and IV
C) I, II and III
D) I, II, III and IV
Answer: D

64) Wanda takes $3,000 from her savings account that pays 5 percent interest per year and uses the funds to purchase a computer for $3,000 for her business. At the end of the year the computer is worth $2,000. Wanda pays an implicit rental rate of _____ a year.
A) $1,150
B) $4,000
C) $3,150
D) zero
Answer: A

65) Which of the following statements does NOT correctly characterize normal profit?
A) It is part of a firm's opportunity cost.
B) It is equal to a firm's total revenue minus its opportunity cost.
C) It is the average return for supplying entrepreneurial ability.
D) None of the above because all the statements correctly characterize normal profit.
Answer: B

66) Ed is a freelance writer who could work for a newspaper at $25,000 a year but instead works for himself for $41,000 a year. His only business expenses are $1,000 for writing materials and $12,000 for rent. Ed's normal profit is $1,000. Ed's economic profit from working as a freelance writer is
A) $1,000.
B) $2,000.
C) $15,000.
D) $25,000.
Answer: B

67) Emma owns a firm that produces umbrellas. Currently, Emma produces 2,500 umbrellas a day. Emma cannot produce more umbrellas in a day unless she purchases another machine or else hires more workers. Emma is _____ efficient.
A) cost
B) technologically
C) economically
D) capital and labor
Answer: B

68) Which of the following is CORRECT?
A) If a firm is technologically efficient, it is always economically efficient.
B) If a firm is technologically efficient, it is always producing at the lowest costs of production.
C) If a firm is economically efficient, it is always technologically efficient.

D) None of the above answers is correct.
Answer: C

69) A firm that is maximizing its profit
A) is economically efficient and technologically efficient.
B) is economically efficient but might be technologically inefficient.
C) is technologically efficient but might be economically inefficient.
D) might be economically inefficient and/or technologically inefficient.
Answer: A

70) By making most of its employees owners of the company, United Airlines attempted to
A) cope with the unlimited liability problem.
B) change its business organization from a corporation to a partnership.
C) address the principal-agent problem between the workers and managers.
D) increase the role of the command system in managing the firm.
Answer: C

1) When the demand for electricity peaks during the hottest days of summer, Florida Power and Light Company can generate more electricity by using more fuel and increasing the working hours of many of its employees. The company cannot, however, increase electric power production by building additional generating capacity. This means that the company is in the
A) market run.
B) short run.
C) intermediate run.
D) long run.
Answer: B

2) After constructing a new factory, the cost of building the factory is a
A) past cost.
B) sunk cost.
C) variable cost.
D) None of the above answers are correct.
Answer: B

3) In the long run, a firm has
A) no factors of production that are fixed.
B) no factors of production that are variable.
C) no factors of production that are either fixed or variable.

D) fixed factors of production but no variable resources.
Answer: A

4) Most total product curves have
A) first increasing and then decreasing marginal returns to labor.
B) output first increasing and then decreasing as labor is added.
C) first decreasing and then increasing marginal returns to labor.
D) output increasing at an increasing rate as labor is added.
Answer: A

5) Average product equals the
A) increase in output that results from a one-unit increase in the quantity of labor employed with all other inputs remaining the same.
B) total amount of output produced.
C) total amount of output produced divided by the quantity of labor employed.
D) total amount of output produced divided by price of the output.
Answer: C

6) The total output produced with any quantity of labor is equal to the sum of the
A) marginal products of each of the workers hired.
B) average products of each of the workers hired.
C) total wages the firm pays its workers.
D) Both answers A and B are correct.
Answer: A

7) Which of the following statements is TRUE?
A) If average product equals marginal product, average product decreases.
B) If marginal product equals average product, average product is a maximum.
C) If marginal product equals average product, marginal product is a maximum.
D) If marginal product exceeds average product, marginal product increases.
Answer: B

8) When the marginal product of labor is greater than the average product of labor, the
A) marginal product of labor must be increasing as labor increases.
B) average product of labor must be increasing as labor increases.
C) total product must be increasing at an increasing rate as labor increases.
D) None of the above answers is correct.
Answer: B

9) When the marginal product curve is downward sloping, the average product curve
A) must also be downward sloping.
B) might be either upward or downward sloping.
C) must be upward sloping.
D) must be horizontal.
Answer: B

10) A firm has fixed costs
A) in the short run and in the long run.
B) in the short run but not in the long run.
C) in the long run but not in the short run.
D) neither in the long run nor in the short run.
Answer: B

11) In a diagram with the total cost curve and the total variable cost curve, as output increases, the vertical distance between these two curves
A) is constant.
B) decreases.
C) increases.
D) gets smaller and then bigger again.
Answer: A

Labor (workers)	Output (bikes)	Total fixed costs (dollars)	Total variable cost (dollars)	Total cost (dollars)
0	0	200		
1	20		100	
2	50			
3	60			
4	64			

12) The table above gives costs at Jan's Bike Shop. Unfortunately, Jan's record keeping has been spotty. Each worker is paid $100 a day. Labor costs are the only variable costs of production. What is the total cost of producing 50 bikes?
A) $100
B) $200
C) $300
D) $400

Answer: D

13) The table above gives costs at Jan's Bike Shop. Unfortunately, Jan's record keeping has been spotty. Each worker is paid $100 a day. Labor costs are the only variable costs of production. What is the total fixed cost of producing 64 bikes?
A) $200
B) $300
C) $400
D) $500
Answer: A

14) The table above gives costs at Jan's Bike Shop. Unfortunately, Jan's record keeping has been spotty. Each worker is paid $100 a day. Labor costs are the only variable costs of production. What is the total variable cost of producing 60 bikes?
A) $200
B) $300
C) $400
D) $500
Answer: B

15) A firm's marginal cost is the increase in its total cost divided by the increase in its
A) quantity of labor.
B) average cost.
C) output.
D) average revenue.
Answer: C

16) A decrease in the price of a fixed factor of production decreases total cost and
A) increases marginal cost.
B) leaves marginal cost unchanged.
C) decreases marginal cost.
D) increases variable cost.
Answer: B

17) By using more labor to produce more output, a firm can always reduce its
A) marginal cost.
B) average variable cost.
C) average total cost.

D) average fixed cost.
Answer: D

18) The average total cost curve eventually slopes upwards because of the
A) law of diminishing returns.
B) reductions in average fixed costs.
C) increase in capital costs.
D) decrease in labor costs.
Answer: A

19) A firm's average total cost is $60, its average variable cost is $30, and its total fixed cost is $600. Its output is
A) 20 units.
B) 30 units.
C) 40 units.
D) 50 units.
Answer: A

20) If total fixed cost increases, then the average total cost curve _____ and the marginal cost curve _____.
A) does not shift; shifts upward
B) shifts upward; shifts upward
C) does not shift; does not shift
D) shifts upward; does not shift
Answer: D

21) The marginal cost (*MC*) curve intersects the
A) *ATC*, *AVC*, and *AFC* curves at their minimum points.
B) *ATC* and *AFC* curves at their minimum points.
C) *AVC* and *AFC* curves at their minimum points.
D) *ATC* and *AVC* curves at their minimum points.
Answer: D

22) Average variable cost is at a minimum at the same amount of output at which
A) average product is at a maximum.
B) marginal product is at a maximum.
C) average product is at a minimum.
D) marginal product is at a minimum.

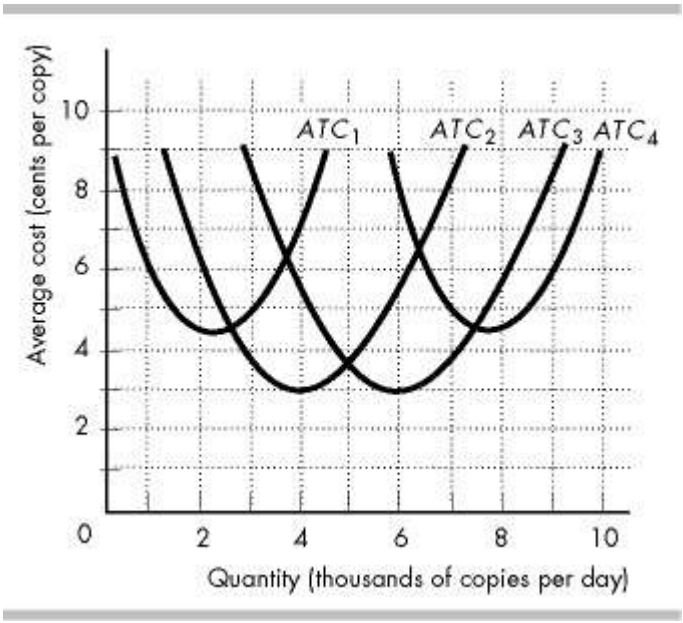
Answer: A

23) A change in technology that shifts the firm's total product curve upward without changing the quantity of capital used
A) shifts the average total cost curve upward.
B) shifts the average total cost curve downward.
C) does not change the cost curves.
D) shifts the marginal cost curve upward.
Answer: B

24) Which of the following is FALSE?
A) Long-run average variable costs equal long-run average total costs.
B) Fixed costs increase in the long run.
C) As a firm produces more output, eventually it experiences diseconomies of scale.
D) In the long run, both the amount of capital and labor used by the firm can be changed.
Answer: B

25) A firm's long run cost is the cost of production when the firm
A) calculates its cost at least one year into the future.
B) adds together all of its short run costs.
C) uses the economically efficient quantities for its plant and its labor.
D) can vary the amount of output it produces.
Answer: C

26) A firm's long-run average cost curve
A) shows the lowest attainable average total cost of producing any level of output when the plant and labor are fixed.
B) is the sum of all of its short-run average cost curves.
C) tells the firm which plant size to use and which quantity of labor to use to minimize the cost of producing any level of output.
D) all of the above
Answer: C



27) Dustin's copy shop can use four alternative plants. The figure above shows the average total cost curves for Plant 1 (ATC_1), Plant 2 (ATC_2), Plant 3 (ATC_3), and Plant 4 (ATC_4).What is Dustin's long-run average cost if the output is 3,000 copies per day?
A) 3.7 cents per copy
B) 5.0 cents per copy
C) 8.5 cents per copy
D) More information is needed to determine the long-run average cost.
Answer: A

28) Dustin's copy shop can use four alternative plants. The figure above shows the average total cost curves for Plant 1 (ATC_1), Plant 2 (ATC_2), Plant 3 (ATC_3), and Plant 4 (ATC_4). Dustin's Plant 2 will be economically efficient if the firm produces
A) 2,000 copies per day.
B) 4,800 copies per day.
C) 5,300 copies per day.
D) 6,000 copies per day.
Answer: B

29) Dustin's copy shop can use four alternative plants. The figure above shows the average total cost curves for Plant 1 (ATC_1), Plant 2 (ATC_2), Plant 3 (ATC_3), and Plant 4 (ATC_4). Dustin's minimum efficient scale is
A) 2,650 copies per day.
B) 6,000 copies per day.
C) 4,000 copies per day.

D) More information is needed to determine the minimum efficient scale.
Answer: C

30) Economies of scale refer to
A) the point at which marginal cost equals average cost.
B) the fact that in the long run, fixed costs remain constant as output increases.
C) the range of output over which the long-run average cost falls as output increases.
D) a feature of short-run production functions but not long-run production functions.
Answer: C

31) Electric utility companies have built larger and larger electric generating stations and, as a result, the long-run average cost of producing each kilowatt hour decreased. This is an example of
A) increasing marginal returns.
B) diminishing marginal returns.
C) economies of scale.
D) diseconomies of scale.
Answer: C

Chap 12-13

32) Perfect competition arises if the _____ efficient scale of a single producer is _____ relative to the demand for the good or service.
A) minimum; small
B) minimum; large
C) maximum; small
D) maximum; large
Answer: A

33) When a firm is considered to be a "price taker" that means that the firm
A) can charge any price that it wants to charge, that is, "take" any price it wants.
B) pays a fixed price for all of its inputs.
C) will accept ("take") the lowest price that its customers offer.
D) cannot influence the market price of the good that it sells.
Answer: D

34) The price elasticity of demand for any particular perfectly competitive firm's output is
A) less than 1.
B) 1.

C) equal to zero.
D) infinite.
Answer: D

35) For a perfectly competitive firm, no matter how much the firm produces, price *always* equals
A) marginal product.
B) average total cost.
C) minimum average total cost.
D) marginal revenue.
Answer: D

36) A perfectly competitive firm maximizes its profits by producing the amount of output such that
A) $MR = P$.
B) $MR = MC$.
C) $P = AVC$.
D) $P = ATC$.
Answer: B

37) Charlie's Chimps is a perfectly competitive firm that produces cuddly chimps for children. The market price of a chimp is $10, and Charlie's produces 100 chimps. The marginal cost of the 100th chimp is $9. Charlie's _____.
A) is maximizing its profit
B) will maximize its profit if it produces more than 100 chimps
C) will maximize its profit if it lowers the price to $9 a chimp
D) will maximize its profit if it produces fewer than 100 chimps
Answer: B

38) A perfectly competitive firm's marginal cost exceeds its marginal revenue at its current output. To increase its profit, the firm will
A) lower its price.
B) raise its price.
C) decrease its output.
D) increase its output.
Answer: C

39) A firm's shutdown point is the quantity and price at which the firm's total revenue just equals its
A) total cost.
B) total variable cost.

C) total fixed cost.
D) marginal cost.
Answer: B

40) A perfectly competitive firm shuts down if the price of its product is
A) greater than its minimum average variable cost.
B) less than its minimum average variable cost.
C) greater than its maximum variable cost.
D) less than its minimum total cost.
Answer: B

41) A perfectly competitive firm's short-run supply curve is the same as its
A) *ATC* curve.
B) *MR* curve.
C) *AVC* curve.
D) *MC* curve above the minimum of the *AVC* curve.
Answer: D

42) In a perfectly competitive market in the short run, as the market demand increases, the firms _____ their output and their economic profit _____.
A) increase; increases
B) increase; decreases
C) decrease; decreases
D) decrease; increases
Answer: A

43) If firms in a perfectly competitive industry are making zero economic profit, then
A) some of those firms will leave the industry, because firms cannot persistently go without making economic profit.
B) new firms will enter the industry, because the new entrants would be ensured of doing as well as in their best foregone alternative.
C) there is no incentive for either entry or exit.
D) some of the firms will temporarily shut down.
Answer: C

44) Suppose firms in a perfectly competitive industry are making economic profits. As a result
I. new firms enter the industry.
II. the market price falls.

III. the economic profits of the existing firms decrease.
A) I, II and III
B) I and II
C) II and III
D) I and III
Answer: A

45) In the long run, for a perfectly competitive market, if economic profit is
A) less than zero, then some firms will exit the market and the market supply curve will shift leftward.
B) greater than zero, then some firms will enter the market and the market supply curve will shift rightward.
C) equal to zero, then there is no entry or exit of firms into or out of the market.
D) All of the above answers are correct.
Answer: D

46) In the long-run equilibrium, perfectly competitive firms make zero economic profit because of
A) government regulations.
B) the ability of firms to enter and exit.
C) inefficient production processes.
D) high fixed costs.
Answer: B

47) Monopoly has two key features, which are _____.
A) barriers to entry and no close substitutes
B) franchises and barriers to entry
C) barriers to entry and close substitutes
D) close substitutes and no barriers to entry
Answer: A

48) Which of the following is NOT a barrier to entry for a monopoly?
A) economies of scale for the relevant range of output
B) a patent on the product being sold
C) the ability to charge a price that is above marginal cost
D) receiving a public franchise
Answer: C

49) A natural monopoly is defined as
A) a market in which competition and entry are restricted by the granting of a government license.

B) an industry in which economies of scale allow one firm to supply the entire market at the lowest possible cost.
C) a market in which competition and entry are restricted by the granting of a patent.
D) any market where one firm constitutes the entire industry.
Answer: B

50) All of the following are examples of price discrimination EXCEPT
A) buy-one-get-one-free offers.
B) "early bird specials" at a restaurant.
C) lower ticket prices for matinee performances.
D) "buy now, pay later" payment options.
Answer: D

51) A single-price monopoly is characterized by a marginal revenue curve that is
A) upward sloping.
B) downward sloping.
C) horizontal.
D) vertical.
Answer: B

52) A single-price monopolist
A) sets its price where its demand is inelastic.
B) can always increase its profits by increasing its price.
C) has its marginal revenue less than its price.
D) is guaranteed an economic profit.
Answer: C

53) For a single-price monopolist, marginal revenue is less than price because
A) the revenue gain from the last unit sold is offset by a revenue loss on the units that previously had been sold at a higher price.
B) the revenue gain from the last unit sold is offset by further gains in price on units not sold at all.
C) total revenue always decreases as output increases.
D) the price does not have to be lowered on all previous units sold.
Answer: A

54) If the price elasticity of demand is greater than 1, a monopoly's
A) total revenue increases when the firm lowers its price.
B) total revenue decreases when the firm lowers its price.

C) marginal revenue is negative.
D) marginal revenue is zero.
Answer: A

55) A monopoly firm expands its output and lowers its price. The firm finds that its total revenue falls. Hence, the firm is producing in the
A) elastic range of its demand curve.
B) inelastic range of its demand curve.
C) elastic range of its supply curve.
D) inelastic range of its supply curve.
Answer: B

56) To maximize profit, the monopolist produces on the _____ portion of its demand where _____.
A) elastic; $P = MC$
B) elastic; $MR = MC$
C) inelastic; $P = MC$
D) inelastic; $MR = MC$
Answer: B

57) A profit maximizing single-price monopolist charges a price equal to
A) average total cost.
B) marginal revenue.
C) the highest price consumers are willing to pay for the profit maximizing quantity.
D) the price necessary for the firm to earn a normal return on its investment.
Answer: C

58) The primary reason why a monopoly can make a long-run economic profit is the existence of
A) barriers to entry.
B) inelastic demand.
C) price discrimination.
D) many buyers.
Answer: A

59) Compared to a perfectly competitive industry, a single-price monopoly with the same costs will
A) create less consumer surplus.
B) create less economic profit.
C) create a deadweight loss.

D) Both answers A and C are correct.
Answer: D

60) The fundamental reason a single-price monopoly creates a deadweight loss is that compared to the efficient outcome, the single-price monopoly
A) raises variable cost.
B) raises fixed cost.
C) restricts output.
D) reduces the elasticity of demand.
Answer: C

61) Rent seeking through lobbying
A) reduces deadweight loss.
B) uses up resources that result in additional costs to society.
C) results in perfect price discrimination.
D) results in perfectly competitive industries.
Answer: B

62) The maximum amount a rent seeker would pay for a monopoly is the _____.
A) market price
B) deadweight loss
C) monopoly's economic profit
D) monopoly's normal profit
Answer: C

63) With rent seeking by a monopoly
A) the monopolist's average total costs will increase so that its average total cost curve is tangent to the demand curve at the profit-maximizing price.
B) a monopoly uses all of what would be its economic profit to prevent other firms from taking its economic rent.
C) the full deadweight loss of monopoly is larger than in the absence of rent seeking.
D) All of the above answers are correct.
Answer: D

64) Which of the following is necessary for a monopolist to price discriminate between groups?
A) The groups are identifiable.
B) The groups have different willingness to pay.
C) A customer from one group cannot resell to a customer in another group.

D) All of the above conditions are necessary for the monopolist to price discriminate.
Answer: D

65) It is easier for a monopolist to price discriminate between groups for a service than for a good because
A) it is easier to calculate average willingness to pay for services.
B) it is easier to distinguish between groups of customers for services than customers for goods.
C) it is easier for consumers to resell goods than resell services.
D) customers for goods usually do not differ with respect to their average willingness to pay.
Answer: C

66) Price discrimination
A) eliminates the producer surplus.
B) turns consumer surplus into producer surplus.
C) decreases output below the profit-maximizing level.
D) lowers a monopoly's economic profit.
Answer: B

67) Which of the following is TRUE about a perfect price discriminating monopolist?
A) There is inefficiency.
B) All consumers pay a price equal to marginal cost.
C) There is no consumer surplus.
D) There is zero economic profit.
Answer: C

68) Which of the following statements is TRUE?
A) Perfectly competitive markets are efficient, but monopoly markets never are efficient.
B) Perfectly competitive markets always reach equilibrium but monopoly markets never reach equilibrium.
C) Perfect price discriminating monopolists can eliminate all deadweight losses and achieve efficiency.
D) All the above statements are true.
Answer: C

Chap 15-17

69) The distinguishing features of oligopoly are _____ and a _____ in the industry.
A) barriers to entry; large number of firms

B) no barriers to entry; few firms
C) barriers to entry; few firms
D) no barriers to entry; large number of firms
Answer: C

70) Natural oligopoly is a situation where
A) the level of demand can support only a few firms.
B) there is only one firm.
C) there are only two firms.
D) there are legal barriers to entry.
Answer: A

71) In game theory, strategies include _____.
A) all possible actions of each player
B) only the winning action of each player
C) all possible actions and payoffs of each player
D) the payoff matrix
Answer: A

72) In a prisoner's dilemma game, each person will pick
A) their best outcome given what the other person will do.
B) their best outcome.
C) their worse outcome.
D) their best outcome after consulting with the other person.
Answer: A

73) In a prisoners' dilemma game, in the Nash equilibrium
A) both players have another outcome that does not occur but is more favorable.
B) neither player has another outcome that does not occur and is more favorable.
C) one player has another outcome that does not occur and is more favorable.
D) collusion would not alter the outcome.
Answer: A

Student 1

		Work	Don't work
	Work	1: +10 2: +10	1: +5 2: +5
Student 2			

	Don't work	1: +5 2: +50	1: 0 2: 0

74) Two students are assigned a group project. Each has the option to work or not work to achieve a high grade. The payoffs are shown in the above table. Student 1 should
A) work only if student 2 works.
B) work regardless of the decision made by student 2.
C) not work if student 2 works.
D) not work regardless of what student 2 decides.
Answer: B

75) The maximum economic profit that can be made by a duopoly that colludes is equal to the _____.
A) economic profit made by duopolists who cheat
B) normal profit made by an oligopoly
C) economic profit made by a monopoly
D) normal profit made by firms in perfect competition
Answer: C

76) A cooperative equilibrium is most likely to arise in a
A) single-play game with a large number of players.
B) single-play game without communication.
C) repeated game with a large number of players.
D) repeated game with a small number of players.
Answer: D

77) A cost that arises from the production of a good that is paid by someone who did not participate in the production is called
A) a free rider.
B) an externality.
C) rent seeking.
D) a public failure.
Answer: B

78) Beautification of the national highways through the planting of shrubs and wildflowers will
A) be profitable for a private landscaping company because they can charge passing drivers.
B) benefit even people who do not help pay.
C) provide a flow of services that are rival in consumption.

D) provide a flow of services that involve excludable consumption.
Answer: B

79) If the marginal private cost of producing one kilowatt of power in California equals five cents and the marginal social cost of each kilowatt equals nine cents, then the marginal external cost equals _____ per kilowatt.
A) five cents
B) nine cents
C) four cents
D) fourteen cents
Answer: C

80) Generating electricity creates air pollution. This industry, if left unregulated, will produce at an inefficient market equilibrium where
A) marginal private cost equals marginal social benefit.
B) marginal social cost equals marginal social benefit.
C) marginal social cost equals marginal private cost.
D) marginal social benefit is greater than marginal social cost.
Answer: A

81) The Coase Theorem is the proposition that private transactions are efficient if property rights exist, if only a _____ number of parties are involved, and if transactions costs are _____.
A) large; low
B) large; high
C) small; low
D) small; high
Answer: C

82) When the production of a good creates an external cost, in order for taxes to be effective in achieving the efficient allocation of resources, the tax must be set equal to the
A) marginal private cost.
B) marginal external cost.
C) marginal social cost.
D) marginal benefit of polluting.
Answer: B

83) Individuals making decisions about how much to purchase of a product with an external benefit base their decisions on which of the following?

A) the price and marginal private benefit
B) the economically efficient output
C) the price and the marginal social benefit
D) the size of the deadweight loss
Answer: A

84) If a local fishing club spends time each year cleaning up local streams by removing trash thrown by motorists, efficiency would be improved if
A) motorists were fined and fishing club activities were taxed.
B) the fishing club's activities were subsidized.
C) the fishing club was taxed.
D) motorists were subsidized.
Answer: B

85) Kellogg's and General Mills are two of the dominant breakfast cereal manufactures in the U.S. Each firm can either sign or not sign an exclusive contract with an Olympian gold-medal athlete to appear on the cover of a cereal box. If both companies sign an athlete, they will each make $5 million in economic profit. If only firm signs, they earn $8 million in economic profit and the other firm incurs an economic loss of $1 million. If neither firm signs, they break even. What is the outcome of this game if it is only played once?
A) Neither Kellogg's nor General Mills will sign an athlete.
B) Kellogg's will sign an athlete and General Mills will not sign an athlete.
C) Both Kellogg's and General Mills will sign an athlete.
D) General Mills will sign an athlete and Kellogg's will not sign an athlete.
Answer: C

86) A single firm in a contestable market is limited in the amount of economic profit it can earn because there
A) are barriers to entry.
B) are no barriers to entry.
C) is collusion.
D) are government regulations limiting its profit.
Answer: B

			Gateway
		Cut price	Hold price
	Cut price	G: $10 D: $10	G: $5 D: $20

Dell			
	Hold price	G: $20 D: $5	G: $15 D: $15

87) Dell and Gateway must decide whether to lower their prices, based on the potential economic profits shown in the payoff matrix above. (The profits are in millions of dollars.) In the Nash equilibrium
A) Dell keeps its prices high and Gateway lowers its prices.
B) both Dell and Gateway lower prices.
C) Gateway keeps its prices high and Dell lowers its prices.
D) both Dell and Gateway keep prices high.
Answer: B

88) Government failure, when government actions lead to inefficiency, can result in
A) overprovision.
B) underprovision.
C) both A and B.
D) neither A nor B.
Answer: C

89) If it is impossible to prevent someone from benefiting from a good regardless of whether or not the person paid for it, then the good is
A) nonrival.
B) rival.
C) nonexcludable.
D) excludable.
Answer: C

90) Nonrivalry is a feature of
A) goods but not services.
B) all nonexcludable goods.
C) excludable goods.
D) public goods.
Answer: D