

1

The opportunity cost of studying for an economics test is

1/1
points awarded

Scored

Multiple Choice

- ☐ The money you spent on tuition for the class.
- ☐ Negative because it may improve your grade.
- ☐ Zero because you knew when you registered for the class that studying would be required.
- ☒ The activity that is the best alternative use of your time.



Explanation

2

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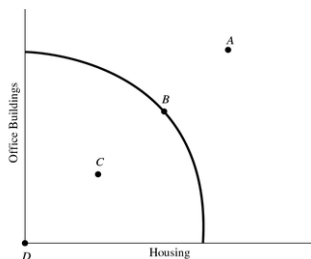


Figure 1.1
Production Possibilities Curve

At which point is society producing the most output possible with the available resources and technology? (See Figure 1.1)

Multiple Choice

- ☒ B.
- ☐ A.
- ☐ D.
- ☐ C.



3

Per capita GDP will rise if GDP

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Multiple Choice

- ☐ Decreases and the population increases.
- ☐ Increases more slowly than the population increases.
- ☒ Increases more rapidly than the population increases.
- ☐ Increases at the same rate as the population increases.



Explanation

As long as the growth in GDP outpaces population growth, living standards will rise.

4

Which of the following would be a legitimate government activity in the U.S. economy?

Multiple Choice

- ☐ The enactment of antitrust laws to protect consumers.
- ☐ The regulation of water pollution.
- ☐ Enforcing child labor laws.
- ☒ All of the choices are correct.



Explanation

The government makes many contributions to society by providing public goods along with environmental and child labor regulation.

5

Those who are interested in assessing the relative standard of living of different countries over a given time period are most likely to look at

Multiple Choice

- ☐ GDP.
- ☒ Per capita GDP.
- ☐ Percentage change in GDP.
- ☐ Population.



Explanation

Comparing living standards between countries allows us to see which countries are more or less prosperous per person.

6

Ceteris paribus, which of the following is most likely to cause an increase in the quantity demanded of perfume?

Multiple Choice

- ☐ An increase in income.
- ☒ A decrease in the price of perfume.
- ☐ An increase in the price of electricity.
- ☐ A decrease in tastes for perfume.



Explanation

Quantity demanded and price are inversely related. Tastes and income changes would cause a change in demand (a shift), and the price of electricity would impact the supply of perfume.

7

If bagels and doughnuts are substitutes, then a decrease in the price of doughnuts will result in

Multiple Choice

- ☐ An increase in the demand for bagels.
- ☐ An increase in the demand for doughnuts.
- ☐ A decrease in the demand for doughnuts.
- ☒ A decrease in the demand for bagels.



Explanation

Consumers will substitute the relatively cheaper doughnuts when the price of doughnuts falls, thereby causing the demand for bagels to decrease.

8

A leftward shift of the market demand curve for HDTVs, *ceteris paribus*, causes equilibrium price to

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Multiple Choice

- ☐ Increase and quantity to increase.
- ☐ Increase and quantity to decrease.
- ☒ Decrease and quantity to decrease.
- ☐ Decrease and quantity to increase.



Explanation

A decrease in demand causes equilibrium price and equilibrium quantity to decrease.

If there is a surplus at a given price, then

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Multiple Choice

- ☒ That price is greater than the equilibrium price.
- ☐ The market is in equilibrium at that price.
- ☐ That price is lower than the equilibrium price.
- ☐ The price is zero.



Explanation

At prices above equilibrium, quantity supplied will be greater than quantity demanded, so a market surplus will exist.

Ceteris paribus, which of the following would generally cause an increase in the demand curve for new automobiles?

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Scored

Multiple Choice

- ☒ An increase in consumers' income.
- ☐ Consumer expectations that the price of new automobiles will be lower next year.
- ☐ A decrease in the price of new automobiles.
- ☐ The new models being perceived as ugly compared with old models.



Explanation

A decrease in the price of new automobiles would cause a movement along the demand curve. Perceived ugliness and expectations of lower prices would decrease the demand. An increase in consumers' income would increase the demand for goods.

11

From an economic standpoint, government intervention may be justified

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Scored

Multiple Choice

- ☐ Because the government can encourage the production of private goods.
- ☐ When the private sector is larger than public sector.
- ☐ Because the government can increase the level of market power of private businesses.
- ☒ If the market mechanism fails to achieve the optimal mix of output.



Explanation

The government may be able to push market outcomes closer to the ideal when the market fails to yield optimal outcomes.

12

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points awarded
Scored

Josh is eating pizza at his favorite Italian restaurant. Below is his utility from this consumption:

Table 19.1

Slice of Pizza	Total Utility	Marginal Utility
First slice	20	20
Second slice	39	19
Third slice	-	15
Fourth slice	59	-

Refer to Table 19.1. The marginal utility Josh enjoys from the fourth slice of pizza is

Multiple Choice

☒

5 utils.

☐

20 utils.☐☐

Explanation

Marginal utility is the change in total utility as a buyer consumes more units of a good. The change in marginal utility from the third to the fourth slice of pizza is 59 - 54 = 5.

13

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points awarded
Scored

Rosa is willing to pay \$200 for the iPhone, but the actual price is \$400. This means

Multiple Choice

☐

Rosa will buy this product but will not receive any consumer surplus.

☒

Rosa will not buy an iPhone.☐☐

Explanation

Rosa will not purchase the iPhone because she is not willing to pay the \$400 price. If she were willing to pay \$500 for the iPhone, she would buy it and enjoy \$100 of consumer surplus.

14

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points awarded
Scored

Assume the price of cola is \$8 per unit and the price of pretzels is \$4 per unit.

Table 19.3

Michael's Utility Schedule

Units of Cola	TU of Cola	MU of Cola	Units of Pretzels	TU of Pretzels	MU of Pretzels
1	40	40	1	30	30
2		32	2		20
3	96	24	3	66	16
4	112		4	78	
5	124		5	84	

In Table 19.3 the marginal utility per dollar of the second cola is

Multiple Choice

☐

6.

☐

10.☒☐

Explanation

The marginal utility per dollar is equal to the marginal utility divided by the price of the product. The marginal utility of the second cola is 32, so the marginal utility per dollar is 32/8=4.

15

Suppose a university raises its tuition by 6 percent and as a result the enrollment of students decreases by 3 percent. The absolute value of the price elasticity of demand is

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Multiple Choice

- ☒ 0.5.
- ☐ 8.0.
- ☐ 6.0.
- ☐ 2.0.

Explanation

The price elasticity of demand is equal to the percentage change in quantity demanded divided by the percentage change in price. Therefore the price elasticity of demand is equal to $3/6$ or 0.5 .

16

Sam owns a taco restaurant, and he conducted a consumer survey that indicates that the price elasticity of demand for his restaurant is 3.5. You would advise Sam to

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Multiple Choice

- ☐ Raise his price to increase revenues.
- ☐ Offer more high-priced products.
- ☐ Keep his price the same to maximize revenues.
- ☒ Lower his price to increase revenue.

Explanation

If the elasticity of demand is 3.5 (in absolute value), it indicates that demand is very elastic. Consumers have a lot of substitutes available. Therefore Sam should lower his price to increase total revenue because the quantity demanded will increase.

17

Smart phones and apps are complementary goods. The cross price elasticity of demand between smart phones and apps is expected to be.

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Scored

Multiple Choice

- ☐ Positive.
- ☒ Negative.
- ☐ Undefined.
- ☐ Equal to zero.

Explanation

The cross-price elasticity of demand is equal to the percentage change in the quantity demanded of one good divided by the percentage change in the price of another good. The cross-price elasticity of demand will be negative for complements because a decrease in the price of smart phones will cause an increase in demand for apps.

18

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points awarded
Scored

When income falls, the demand for an inferior goods

Multiple Choice

- ☒ Increases.
- ☐ Decreases.
- ☐ Has a smaller change than the income change.
- ☐ Stays the same.

Explanation

Inferior goods' demand rises when incomes fall, as in a recession. Consumers switch to cheaper alternatives, and these may be inferior goods such as bus travel, generic goods, and the like.

19

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points awarded
Scored

In the short run, when a firm produces zero output, variable cost equals

Multiple Choice

- ☒ Zero.
- ☐ Marginal cost.
- ☐ Fixed cost.
- ☐ Total cost.

Explanation

Variable costs start at zero when a firm produces zero.

20

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points awarded
Scored

Refer to Table 21.5:

Table 21.5

Q	IFC	TVC	TC	AVC	MC
0			15	–	–
1			23		
2				4	
3		15			

The total cost of 3 units of output in Table 21.5 is

Multiple Choice

- ☐ \$15.
- ☒ \$30.
- ☐ \$38.
- ☐ \$23.

Explanation

Total cost is equal to fixed cost plus variable cost, which is \$30.

21

A firm that makes zero economic profits

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points awarded
Scored

Multiple Choice

- ☐ Must eventually go bankrupt and exit the industry.
- ☐ Incurs an accounting loss if fixed costs are greater than variable costs.
- ☒ Covers all its costs, including a provision for normal profit.
- ☐ Does not cover its variable costs and should shut down in the short run.



Explanation

A firm that is making zero economic profits is covering all of its costs including its opportunity costs; in other words, it is earning a normal profit.

22

When the average total cost curve is rising, the marginal cost curve will be

1/1
points awarded
Scored

Multiple Choice

- ☐ Falling with greater output.
- ☐ Below the average fixed cost curve.
- ☒ Above the average total cost curve.
- ☐ Below the average total cost curve.



Explanation

If the marginal cost is greater than the average total cost, the average total cost must be increasing. For instance, if you have a 3.5 GPA (grade point average) and get a 4.0 in your last (marginal) economics class, your GPA will rise.

23

The demand curve for each perfectly competitive firm is

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Multiple Choice

- ☐ Vertical.
- ☐ Downward-sloping.
- ☒ Horizontal.
- ☐ Upward-sloping.



Explanation

The market demand curve for a product is always downward-sloping (law of demand). The demand curve confronting a perfectly competitive firm is horizontal (perfectly elastic demand).

24

0/1
points awarded
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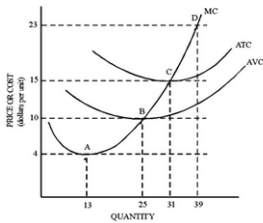


Figure 22.3
Refer to Figure 22.3 for a perfectly competitive firm. If the market price is \$23,

Multiple Choice

- ☐ The firm will have above-normal profits.
- ☒ Economic profits are zero.
- ☐ The firm should produce 31 units.
- ☐ The firm should produce 25 units.

Explanation
When the market price is \$23, the profit-maximizing output is 39 units. At that point price is greater than ATC, and economic profits will be greater than zero (above normal).

25

1/1
points awarded
Scored

If price is less than marginal cost, a perfectly competitive firm should decrease output because

Multiple Choice

- ☐ Marginal revenue is decreasing.
- ☐ Total revenues are decreasing.
- ☐ Marginal costs are increasing.
- ☒ The firm is producing units that cost more to produce than the firm receives in revenue, thus reducing profits (or increasing losses).

Explanation
If MC exceeds price, a firm is spending more to produce that extra unit than it is getting back, and total profits will decline.

26

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points awarded
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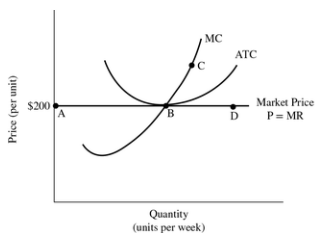
For a perfectly competitive market, long-run equilibrium is characterized by all of the following *but* which one?

Multiple Choice

- ☐ $P = MC$.
- ☒ $P = \text{maximum ATC}$.
- ☐ $P = \text{minimum ATC}$.
- ☐ $P = MR$.

Explanation
If the short-run equilibrium is profitable, other firms will want to enter the industry. As they do, market price will fall until it reaches the level of minimum ATC.

27

1/1
points awarded
Scored**Figure 23.5**

Refer to Figure 23.5 for a perfectly competitive firm. This firm will maximize profits by producing the level of output that corresponds to point

Multiple Choice

☒ B.

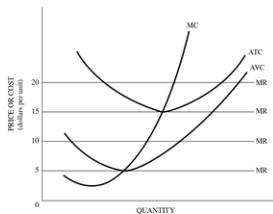
☐ A.

☐ D.

☐ C.
Explanation

A competitive firm maximizes total profit at the output rate where MR is equal to MC-point B.

28

1/1
points awarded
Scored**Figure 23.1**

Refer to Figure 23.1 for a perfectly competitive firm. This firm should shut down in the short run if the market price is below

Multiple Choice

☒ \$5.

☐ \$20.

☐ \$15.

☐ \$10.
Explanation

A firm should shut down only if the losses from continuing production exceed fixed costs. This happens when price is less than the minimum average variable cost (\$5).

29

1/1
points awarded
Scored

In a competitive market where firms are earning economic profits, which of the following should be expected as the industry moves to long-run equilibrium, *ceteris paribus*?

Multiple Choice

☐ A higher price and fewer firms.

☐ A higher price and more firms.

☒ A lower price and more firms.

☐ A lower price and fewer firms.
Explanation

If economic profits exist in an industry, more firms will want to enter it. As they do, the market supply curve will shift to the right and cause the market price to drop until profits are normal.

30

A profit-maximizing monopolist produces the rate of output where

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points awarded
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Multiple Choice

- ☐ Price = MC.
- ☐ MR = MC and can set price at any amount it chooses.
- ☒ MR = MC and determines price based on the demand curve.
- ☐ MR = MC and determines price based on ATC.

Explanation

A firm maximizes total profit at the output rate where MR is equal to MC. If MC is less than MR, the firm can increase profits by producing more. If MC exceeds MR, the firm should reduce output.

31

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points awarded
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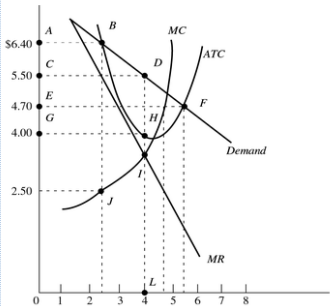


Figure 24.2

In Figure 24.2, a profit-maximizing monopolist will charge a price of

Multiple Choice

- ☐ \$4.70.
- ☐ \$4.00.
- ☐ \$6.40.
- ☒ \$5.50.

Explanation

At the output level where MR is equal to MC, the price consumers are willing and able to pay according to the demand curve is \$5.50.

32

A monopoly

1/1
points awarded
Scored

Multiple Choice

- ☐ Maximizes profits at the output level where $MR > MC$.
- ☐ Charges the same price as a competitive industry, *ceteris paribus*.
- ☒ Produces less output than a competitive industry, *ceteris paribus*.
- ☐ Maximizes profits at the output where $P = MR$.

Explanation

When compared to a competitive market, monopolists tend to charge a higher price and produce a lower level of output.

33

1/1
points awarded

Scored

Which of the following is *not* an example of price discrimination by the only movie theater in town?

Multiple Choice

☒ Charging one price at all times for all customers.☐ Charging a lower price for people over the age of 65.☐ Charging a lower price for children under the age of 12.☐ Charging a lower price for matinees.**Explanation**

Price discrimination occurs when a producer sells a good to different customers at different prices; therefore charging one price at all times for all customers certainly is not an example of price discrimination.

34

1/1
points awarded

Scored

According to the theory of contestable markets, monopoly may not be a problem if

Multiple Choice

☐ Antitrust regulations are enforced.☐ The structure of a market is competitive.☒ Potential competition exists.☐ Firms can exit from the market.**Explanation**

A contestable market is an imperfectly competitive industry subject to potential entry if prices or profits increase. Therefore firms will keep prices low, which will result in low profits.

35

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points awarded

Scored

Which market structure is characterized by a few interdependent firms?

Multiple Choice

☐ Monopolist competition.☒ Oligopoly.☐ Monopoly.☐ Perfect competition.**Explanation**

An oligopoly is a market with a few firms that are protected by high barriers to entry and have substantial market power.

36

If a firm is producing at the kink in its demand curve and it decides to increase its price, according to the kinked demand model

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points awarded
Scored

Multiple Choice

☒ It will lose market share to the firms that do not follow the price increase.

☐ Its market share will not be affected.

☐ It will not gain market share but will definitely increase profits.

☐ It will gain market share.

Explanation
According to the kinked demand model, oligopolists will not increase prices because the consumers will substitute the relatively cheaper competitors' goods, revenues will fall, and profits will decrease.

37

Suppose there are 51 firms in a market. The largest firm has sales of \$50 million and each of the other firms has sales of \$1 million. The Herfindahl-Hirshman Index of this industry is

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points awarded
Scored

Multiple Choice

☒ 2,501.

☐ 2,550.

☐ 50.

☐ 2,500.

Explanation
The HHI is equal to the sum of the squares of the market share of each firm in the industry. Therefore if you take the square of 50 percent and add it to the square of 1 percent multiplied by 50 (because there are 50 firms with 1 percent market share), you will get an HHI of 2,550.

38

The competitive dimension of monopolistic competition is that

0/1
points awarded
Scored

Multiple Choice

☐ Each firm in the industry will lose all of its customers if it raises its price.

☐ Low barriers to entry tend to push economic profits toward zero.

☐ High barriers to entry tend to push economic profits toward zero.

☒ Consumers view each firm's products as interchangeable.

Explanation
A monopolistically competitive market, like a perfectly competitive market, has low barriers to entry—it's relatively easy to get in and out of the industry. The presence of profits entices new firms to enter and existing firms to expand, which drives down prices until economic profits are zero.

39

1/1
points awarded

Scored

If economic profits are earned in a monopolistically competitive market,

Multiple Choice

- ☐ The market supply curve will shift to the left.
- ☐ Price will rise.
- ☒ More firms will enter the market.
- ☐ The market demand curve will shift to the right.



Explanation

Given the ease of entry and exit, as long as firms are making a profit, firms will enter the market, and the disappearance of economic profits is inevitable. When more firms enter the market, the firm's demand curve shifts to the left and becomes more elastic because more close substitutes (other firms) are available.

40

1/1
points awarded

Scored

The long-run average total cost curve of a natural monopolist

Multiple Choice

- ☐ Is below the long-run marginal cost curve in the relevant range of production.
- ☒ Is downward-sloping in the relevant range of production.
- ☐ Reflects diseconomies of scale.
- ☐ Is U-shaped.



Explanation

A combination of high fixed costs and very low marginal costs of a natural monopoly generates a unique, downward-sloping ATC curve reflecting economies of scale.

41

0/1
points awarded

Scored

Profit regulation of a natural monopoly is achieved when

Multiple Choice

- ☐ $P = ATC$.
- ☐ $MR = MC$.
- ☐ $P = MC$.
- ☒ $MR = \text{minimum } ATC$.



Explanation

Profit regulation must permit a natural monopoly to charge a price high enough to cover all its costs, including a normal profit. Normal profit is achieved at the output level where price is equal to average total cost.

42

1/1
points awarded
Scored

From an economic standpoint, the pursuit of a zero-pollution environment is

Multiple Choice

- ☐ The economically correct strategy as long as benefits accrue to society.
- ☐ The morally correct strategy, and costs should not be a consideration.
- ☒ Probably not in society's interest because of the high opportunity costs.
- ☐ The economically correct strategy.



Explanation

Economic activity creates pollution, so a world without pollution would be one with little or no economic activity.

43

1/1
points awarded
Scored

Table 28.1

Reduction in Emissions (in tons)	MC to Reduce Emissions by Steel Plant	MC to Reduce Emissions by Paper Plant
1	\$400	\$200
2	500	280
3	600	320

Refer to Table 28.1. Suppose the government allows these two firms to trade pollution permits. The total cost to reduce emissions by a total of two tons could be as low as

Multiple Choice

- ☐ \$600.
- ☐ \$0.
- ☒ \$480.
- ☐ \$900.



Explanation

The total cost of reducing emissions will be \$480. Because the paper plant can reduce its first and second tons at a lower cost than the steel plant can its first ton, the paper plant will reduce its pollution by two tons, and the steel plant will pay the paper plant for assuming the added abatement responsibility.

44

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points awarded
Scored

Multiple Choice

- ☐ A significant increase in the quantity of food demanded.
- ☐ A very slight decrease in the quantity of food demanded.
- ☐ A significant decrease in the quantity of food demanded.
- ☒ A very slight increase in the quantity of food demanded.



Explanation

The income elasticity of demand for food refers to the responsiveness of food demand to changes in income. Because the income elasticity of food is low, a change in income will have only a small impact on the quantity of food demanded.

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points awarded

Scored

Multiple Choice

- ☒ Raise the price of agricultural production but do not lead to a surplus of output.
- ☐ Affect the demand side as well as the supply side of the farm problem.
- ☐ Transfer more income to farmers.
- ☐ Reduce the price of agricultural goods.

Explanation
Set-asides reduce the production of food and are the easiest way to increase farm prices without creating a surplus. Congress does this by paying farmers for voluntary reductions in crop acreage.

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points awarded

Scored

Multiple Choice

- ☐ Price supports.
- ☐ Direct income support.
- ☒ Acreage set-asides.
- ☐ Countercyclical payments.

Explanation
Supply restrictions in the farming industry occur in the form of acreage set-asides, marketing orders, and import quotas.

47

1/1
points awarded

Scored

Figure 33.1

In Alpha the lowest 20 percent of families receive approximately what percentage of income? (See Figure 33.1)

Multiple Choice

- ☐ 10 percent.
- ☒ 5 percent.
- ☐ 80 percent.
- ☐ 20 percent.

Explanation
On the x-axis at 20 percent, the corresponding y value is approximately 5 percent, meaning the lowest 20 percent of income earners receive 5 percent of total income.

48

The taxation principle that says people with equal incomes should pay equal taxes is called

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Multiple Choice

- ☐ A regressive tax system.
- ☐ A progressive tax system.
- ☐ Vertical equity.
- ☒ Horizontal equity.



Explanation
When two Individuals of similar Incomes pay similar amounts of taxes, there is horizontal equity.

49

The World Bank defines _____ poverty as an income of less than \$3.10 per day per person.

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points awarded
Scored

Multiple Choice

- ☐ extreme
- ☒ severe
- ☐ significant
- ☐ exceptional



Explanation
Because national poverty lines are so diverse and culture-bound, the World Bank decided to establish a uniform standard for assessing global poverty. And it set the bar amazingly low.

50

The general approaches to global poverty reduction include all of the following except

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Scored

Multiple Choice

- ☐ Economic growth that raises average incomes.
- ☐ Redistribution of incomes across nations.
- ☐ Redistribution of incomes within countries.
- ☒ An increase in government control of resources.



Explanation
In principle, the two general approaches to global poverty reduction are redistribution of incomes within and across nations and economic growth that raises average incomes.