

1. Total economic cost to a firm that's earning zero economic profit is
 - a. equal to total implicit costs
 - b. equal to total accounting cost
 - c. zero
 - d. equal to the price of the firm's output times quantity sold
2. The short run is a period during which _____ inputs are variable and _____ inputs are fixed.
 - a. some, no
 - b. some, some
 - c. no, all
 - d. all, no
3. Mr. Hufnagel's cabinet shop is experiencing rapid growth in sales. As sales have increased, Mr. Hufnagel has found it necessary to hire more workers. However, he has observed that, by doubling the number of workers, he has less than doubled his annual production of cabinets. What is the likely explanation?
 - a. The law of diminishing marginal utility.
 - b. The law of diminishing marginal returns.
 - c. The law of supply.
 - d. The law of demand.
4. A factory producing cables for personal computers finds that its current average cost of production is \$11.97 and its marginal cost of production is \$18.54, at the current output of 1,041 cables per month. Output is increased to 1,288 cables per month. At this new output,
 - a. average cost will be higher than at the old output.
 - b. average cost will be lower than at the old output.
 - c. average cost could be either higher or lower than it was at the old output.
 - d. average cost will increase so that it exceeds marginal cost.

5. The figure below shows the total product curve for a ski manufacturer. At what point does the law of diminishing marginal returns set in?



- After the fourth worker is hired.
 - After the third worker is hired.
 - After the first worker is hired.
 - After the second worker is hired.
6. Emily owns a small dress factory. She notices that, when she added her brother to the payroll, the total product of labor was maximized. We can therefore conclude that
- the marginal product of labor is zero.
 - the marginal product of labor is maximized.
 - the marginal product of labor is equal to the average product of labor.
 - the law of diminishing marginal returns has set in.
7. The law of diminishing marginal returns implies that,
- in the short run, the marginal product of labor in a factory will increase continually as more workers are hired.
 - in the short run, the average product of labor in a factory will increase at first, and then decrease, as more workers are hired.
 - in the short run, the average product of labor will continually increase in a factory as more workers are hired.
 - in the short run, average cost of production in a factory will increase at first, and then decrease, as more is produced per day.
8. The average product of labor of workers in the Sony electronics facility that builds televisions is 20 TVs per worker per day. The marginal product of labor at the current level of output is also 20 TVs per worker per day. If more workers are hired to fill additional orders for televisions,
- the average product of labor will increase.
 - the marginal product of labor will increase.
 - Both (a) and (b).
 - the average product of labor will decrease.

9. A firm's total variable cost increases from \$4,000 to \$4,020 as the firm increases its output from 400 to 401 units. What is the marginal cost of the additional unit of output?
- \$401
 - Cannot be determined from the information given.
 - \$4,000
 - \$20
 - \$4,020
10. Technological and managerial improvements in the U.S. automobile industry have resulted in increases in productivity. Other things being equal, an increase in the average product of automobile workers will
- decrease the average cost of producing automobiles.
 - increase the average cost of producing automobiles.
 - have no effect on the cost of producing automobiles.
 - decrease fixed costs of producing automobiles.
11. The demand curve facing a competitive firm is
- unit elastic.
 - inelastic.
 - perfectly inelastic.
 - perfectly elastic.
12. When profits are maximized for a competitive firm in the short run, all of the following are generally true EXCEPT
- marginal cost is increasing.
 - price equals marginal cost.
 - average cost is at a minimum.
 - marginal profit is zero.
13. The minimum possible average cost of production for videotape rentals is \$1.50, and the minimum possible average variable cost of production of a tape rental is \$1. If you operate a videotape rental store, you'll shut it down immediately if the equilibrium price of tape rentals falls below
- \$1.50.
 - \$1.25.
 - \$1.00.
 - \$0.50.

14. Suppose you sell accounting services in a perfectly competitive market. The current equilibrium price of your services is \$50 per hour, and the minimum possible average variable cost of producing your services is \$60. It follows that
- you can earn economic profit this year.
 - unless you shut down your operations this year, you will incur economic losses that exceed your fixed costs.
 - you will incur economic losses this year, but those losses will be less than your fixed costs.
 - if you want to minimize your losses this year, you'll continue operating your business, even though you can't earn an economic profit.
15. Long-run competitive equilibrium implies all of the following EXCEPT
- no firm is motivated to leave the industry and no firm is motivated to enter it.
 - no firm in the industry is motivated to expand or contract its current level of output.
 - all opportunity costs are covered for those firms currently in the industry.
 - economic profits are zero for all firms in the industry.
 - normal profits are zero for all firms in the industry.
16. Suppose the home construction industry is perfectly competitive. When the industry expands or contracts in the long run, the minimum possible average cost of home building remains fixed at \$50 per square foot. Suppose the industry is currently in equilibrium. If the demand for housing decreases,
- the price of home construction will fall both in the short run and the long run.
 - the price of home construction will go down in the short run, but return to an equilibrium price of \$50 per square foot in the long run.
 - the price of home construction won't fall in the short run, but will fall in the long run.
 - the price of home construction won't fall either in the short run or the long run.
17. Accounting profits in the Georgia peach industry are observed to be zero this year. Assuming there are at least some owner-supplied inputs used in the industry and the industry is perfectly competitive, it follows that
- the industry is in equilibrium.
 - new firms will enter the industry.
 - firms will leave the industry.
 - firms in the industry will earn the normal profit.
18. If the Richmond pest control industry is perfectly competitive and in equilibrium,
- the price of their services is less than their marginal cost.
 - the marginal benefit of pest control services equals the marginal cost.
 - firms in the industry aren't earning maximum possible profit.
 - the price of their services can be reduced further without causing firms to leave the industry.

19. Which level of output results from the economy operating for an entire year at the natural rate of unemployment?
- Capacity GDP
 - Real GDP
 - Potential Real GDP
 - Nominal GDP
20. The natural rate, even when the economy is at the peak of a business cycle, is
- The sum of frictional and structural unemployment rates
 - The cyclical unemployment rate
 - The structural unemployment rate
 - The actual unemployment rate
21. When the price of a fixed input increases in the short run
- Marginal revenue increases and profits remain unchanged
 - Marginal cost increases and production decreases
 - Average cost increases and profit decreases
 - The short-run market supply curve shifts leftward
22. If the rate of inflation exceeds the rate of increase in hourly wages during the year
- Nominal wages will decline
 - Real hourly labor costs will increase
 - Real wages will decline
 - Real wages will increase
23. The difference between the nominal interest rate and the rate of inflation is
- The real interest rate
 - The contact interest rate
 - The prime rate
 - The discount rate
24. Suppose the consumer price index (CPI) in 1983 was 100. In 1994, the CPI was 130. In 1990, a bank teller's annual salary was \$20,000. The same job paid \$18,000 in 1983. After adjusting for inflation, the real salary of bank tellers
- Increased by more than the rate of inflation
 - Decreased between 1983 and 1994
 - Increased between 1983 and 1994
 - Remained the same between 1983 and 1994
25. The value of the CPI in 1989 was 124. In 1983, the CPI was 100. Suppose your brother graduated in 1989 and got a job that paid \$24,000 per year. Your brother's real income measured in 1983 dollars was
- \$24,000
 - \$19,350
 - \$10,000
 - \$29,760