Microeconomics

1. Economic models or theories
   a. are limited to variables that are directly (positively) related
   b. are simplifications of the real world they represent
   c. cannot be tested empirically
   d. are limited to variables that are inversely related

2. Allocative efficiency means that
   a. opportunity cost has been reduced to zero
   b. resources are allocated to the use which has the highest value to society
   c. technological efficiency has not been achieved
   d. only relative scarcity exists

3. Operating inside a society's production possibilities frontier is a:
   a. drawback of capitalism relative to socialism
   b. symptom of inefficiency or idle resources
   c. way to build reserves to stimulate investment and growth
   d. result whenever the capital stock depreciates rapidly

4. Which event will shift the butter/guns production possibilities frontier outward?
   a. a new and superior method of producing butter
   b. a decrease in the resources devoted to the production of investment goods
   c. an increase in the production of guns
   d. a reduction in the production of butter

5. Which of the following is correct with respect to a firm's supply of a given product? The supply curve shows
   a. the amount of profit that will be earned for various output levels
   b. the amount of a good that will be available for sale at various prices
   c. an inverse relationship between price and quantity supplied
   d. the amounts of a good that will be sold at various prices

6. If the real income of a consumer decreases and, as a result, his demand for product X increases, it can be concluded that product X is a/an
   a. complementary good
   b. normal good
   c. inferior good
   d. substitute good

7. If beer and pretzels are complementary goods, then an increase in the price of beer will result in:
   a. an increase in the demand for pretzels
   b. an increase in the demand for beer
   c. a decrease in the demand for pretzels
   d. a decrease in the demand for beer

8. Excess demand occurs whenever
   a. quantity demanded is less than quantity supplied
   b. goods are scarce
   c. the actual price is greater than the equilibrium price
   d. the actual price is less than the equilibrium price

9. At the equilibrium price in a market,
   a. there is no tendency for price to change
   b. quantity supplied exceeds quantity demanded
   c. there is a tendency for price to rise
   d. there is a tendency for price to fall
   e. quantity demanded exceeds quantity supplied

10. The price of lettuce rose 70 percent during the 1970's and, as a result, sales of salad dressing fell by more than 25 percent. In economic terms:
   a. the cross elasticity of demand is negative indicating the two goods are substitutes
   b. the price elasticity of supply for salad dressing is low
   c. salad dressing has low price elasticity of demand
   d. the cross elasticity of demand is negative indicating these are complementary goods

11. Which of the following is not a determinant of the price elasticity of demand?
   a. the price elasticity of supply
   b. whether the product is a necessity
   c. whether the product is a luxury
   d. the time period in question

12. The law of diminishing marginal utility:
   a. provides an explanation for perfectly elastic demand curves
   b. suggests that as a individual's consumption of a good increases, his marginal utility must eventually decrease
   c. suggests that total utility will eventually decrease if enough of the good is consumed
   d. suggests that as a consumer buys more of a good, its price will drop

13. To maximize total utility, consumption should be arranged such that the
   a. the total utility associated with each good consumed is equal for all goods consumed
   b. the ratio of the total utility associated with each good consumed to the price of the good is equal for all goods consumed
   c. marginal utility associated with the last unit of each good consumed is equal for all goods consumed
   d. ratio of the marginal utility associated with the last unit of each good consumed to the price of the good is equal for all goods consumed

14. Which of the following will generate additional American demand for the Mexican peso?
   a. increased American travel to Mexico
   b. decision by Mexican petroleum companies to invest in the American oil fields
   c. new American tariffs levied against Mexican goods

d. decline in American demand for tequila produced in Mexico

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15. Quotas tend to be associated with efforts to:

a. expand domestic production
b. raise foreign consumer prices
c. lower domestic consumer prices
d. lower profits in domestic industries

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16. An example of an implicit cost is the

a. interest that a corporation could earn on its undistributed profits
b. salaries paid to the managers of the firm
c. rent paid by a firm for the use of a warehouse
d. property taxes paid by the firm
e. wages paid to the blue collar worker

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17. A driver wishes to buy gasoline and have his car washed. He finds that the market price of gasoline is $1.08 and that the wash costs $1.00 when he buys 19 gallons but that if he buys 20 gallons, the car wash is free. The marginal cost of the twentieth gallon is:

a. $1.00
b. zero
c. 8 cents
d. $1.08

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18. When the total product of a resource is at a maximum then:

a. average product is equal to marginal product
b. average product is equal to zero
c. marginal product is equal to zero
d. average product is at its maximum
e. marginal product is at its maximum

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19. Which of the following is true concerning short-run total costs?

a. total costs are minimized when average total costs are minimized
b. total costs are at a maximum when the average physical product of labor is at its maximum value
c. at zero output, total costs equal zero
d. total costs equal total variable costs plus total fixed costs

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20. The long-run average cost curve

a. suggests that firms always utilize their fixed plant and capacity in an efficient manner
b. suggests that firms will build over-sized plants and underutilize them at all levels of output
c. is the sum of the short-run average-cost curves facing a firm
d. indicates the lowest average costs associated with different levels of output

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21. If a perfectly competitive firm sells 250 units of output at a market price of 55 dollars per unit, its marginal revenue is:

a. $55
b. $110

c. more than $55 but less than $13,750
d. less than $55

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22. In a perfectly competitive market, the demand curve facing the firm is
a. negatively sloped regardless of the characteristics of the market demand curve
b. perfectly elastic while the market demand curve is typically negatively sloped
c. identical to the market demand curve
d. perfectly inelastic even though the market demand curve is not

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23. If the marginal cost of a firm is rising and greater than its marginal revenue, the firm should
a. shut down in the short run
b. shut down in the long run
c. increase output to increase revenue and profit
d. remain at the same level of output since any change would lead to larger losses
e. decrease output

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24. The perfectly competitive firm's supply curve is exactly the same as:
a. its marginal cost curve for all prices above average variable cost
b. its fully allocated costs
c. the supply curve of all firms in the economy
d. its average variable cost curve

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25. When a perfectly competitive firm is in long-run equilibrium, the market price is equal to:
a. average total cost, but may be greater or less than marginal cost
b. marginal revenue, but may be greater or less than both average and marginal cost
c. marginal cost, but may be greater or less than average cost
d. average total cost and also to marginal cost

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26. Assuming no externalities, perfect competition results in efficient resource allocation (allocative efficiency) because price:
a. is greater than average variable cost
b. is equal to marginal cost
c. equals average total cost
d. is less than marginal cost
e. is equal to long-run average cost

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27. The monopolist's demand curve is
a. identical with the industry or market demand curve
b. nonexistent
c. perfectly elastic
d. perfectly inelastic

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28. To maximize profits, a monopolist should produce at that level of output at which:
a. demand and marginal cost intersect
b. demand and average cost intersect
c. marginal revenue equals marginal cost

d. marginal revenue equals average total cost
e. average total cost and marginal cost intersect

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29. Which of the following may be a benefit to society associated with monopolistic competition that does not exist with perfect competition?
a. homogeneous products
b. interdependence in decision making
c. arbitrage
d. product differentiation

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30. In long run equilibrium, the typical monopolistically competitive firm will
a. earn a positive economic profit
b. face a perfectly elastic demand curve
c. earn only a zero economic profit
d. cease to advertise
e. no longer need to engage in nonprice competition

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31. The number of firms in an oligopoly must be
a. large enough that firms cannot closely monitor each other
b. small enough that firms are interdependent in decision making
c. less than a dozen
d. large enough that firms cannot collude
e. large enough that firms will see no reason to engage in nonprice competition

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32. When a group of individuals or firms who produce and supply the same good form an organization whose purpose is to reduce competition between themselves, the organization is known as a ___________. This group, if successful, will (raise/ lower/ maintain) the level of output supplied relative to that produced previous to the organization's existence.
a. oligopoly, lower
b. natural monopoly, raise
c. cartel, lower
d. monopoly, lower

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33. Which of the following is a FALSE statement? Imperfect competition implies that in the long run
a. too little of the good is produced relative to the societal optimum
b. the firms demand curve is not horizontal
c. the firm may not produce at its minimum average total cost
d. price may be greater than marginal revenue
e. price is equal to marginal cost

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34. Output for a price discriminating monopolist, in comparison to a single-price monopoly, will be
a. lower and profits will be lower
b. lower and profits will be higher
c. higher and profits will be lower
d. higher and profits will be higher

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35. As labor costs account for a larger portion of total costs, demand for labor becomes
  a. perfectly elastic
  b. perfectly inelastic
  c. less elastic
  d. more elastic

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36. The demand for labor is
  a. likely to increase with decreases in resource price
  b. a direct relationship between resource price and quantity demanded
  c. a derived demand
  d. always unitary elastic
  e. an inverse relationship between quantity available and quantity demanded

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37. Consider a situation in which there is perfect competition in both the input and output markets. The firm will hire that input level which equates
  a. marginal revenue product with marginal factor cost
  b. marginal physical product with marginal factor cost
  c. marginal factor cost with supply
  d. marginal revenue product with demand
  e. marginal revenue product with marginal physical product

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38. In a perfectly competitive labor market, the supply curve of labor faced by the individual firm is
  a. given by the value of the marginal product (VMP) of labor curve
  b. the upward sloping portion of the marginal factor cost (MFC) of labor curve
  c. perfectly inelastic at the market wage
  d. equal to the market wage

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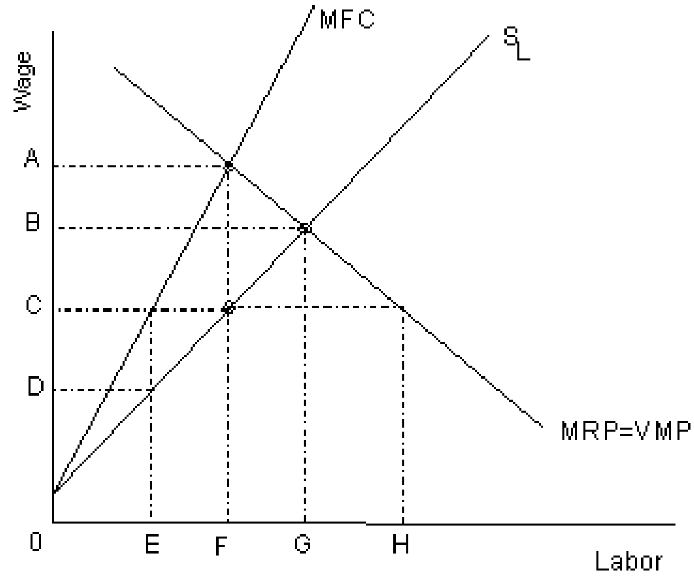
39. In a nonunionized monopsonistic labor market the wage rate
  a. will be higher and the level of employment lower than in a competitive labor market
  b. will be lower and the level of employment higher than in a competitive labor market
  c. and the level of employment will both be higher than in a competitive labor market
  d. and level of employment will both be lower than in a competitive labor market
  e. any one of the above is possible

Use the graph below to answer question number 40



40. The firm in the graph above will pay its workers a wage of $____.
 a. 0-C
 b. 0-D
 c. 0-A
 d. 0-B