

# Microeconomics

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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
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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
- 

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
- 

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
- 

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
- 

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
- 

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
- 

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
- 

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
- 

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

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
- 

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
- 

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
- 

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
- 

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
- 

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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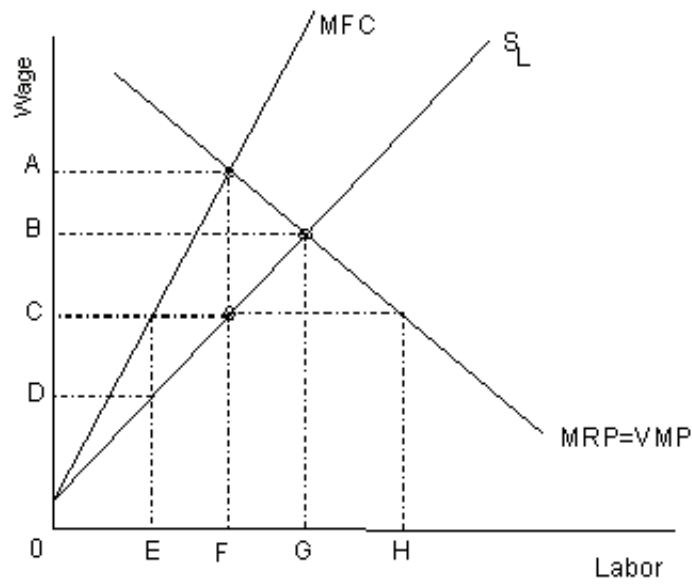
36. The demand for labor is
- a. likely to increase with decreases in resource price
  - b. a direct relationship between resource price and quantity demanded
  - \* c. a derived demand
  - d. always unitary elastic
  - e. an inverse relationship between quantity available and quantity demanded
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37. 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
- 

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
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**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
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