

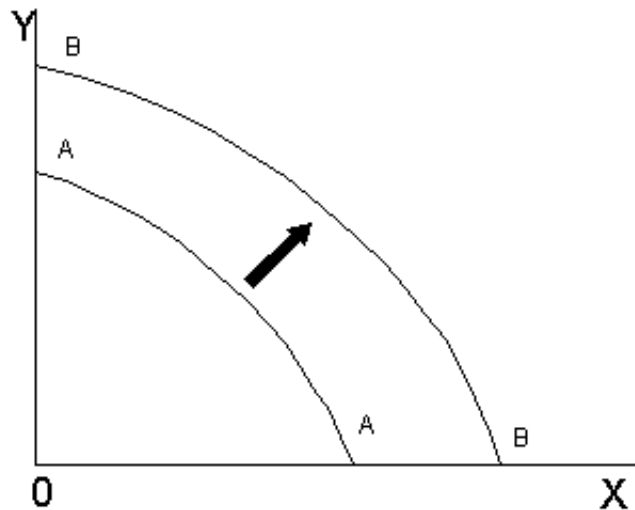
# Microeconomics

---

1. Opportunity costs are the values of the:
- a. minimal budgets of families on welfare
  - b. hidden charges passed on to consumers
  - c. monetary costs of goods and services
  - \* d. best alternatives sacrificed when choices are made
  - e. exorbitant profits made by greedy entrepreneurs
- 

2. A mixed economy is one where
- a. the system changes from purely a free market economy to purely a control economy
  - b. the market system handles resource allocation
  - c. there are elements of democracy and dictatorship
  - \* d. there are elements of a free market economy and a control (planned) economy
- 

Use the graph below to answer question number 3



3. According to the graph above, a shift in the production-possibilities frontier from A-A to B-B could result from:
- \* a. improved technology in the production of both goods
  - b. changes in the combination of goods produced
  - c. unemployment
  - d. inflation
  - e. changes in consumers' tastes
- 

4. A certain country produces only two goods, A and B. A change in government policy results in the society being able to enjoy more of good A without having to sacrifice any of good B. This situation:

- \* a. suggests that before the policy change the economy was either operating inefficiently or had unemployed resources
  - b. demonstrates that all economic problems are inter-related
  - c. demonstrates the law of scarcity
  - d. indicates that government was able to temporarily push society beyond its potential
- 

5. Which one of the following will cause the demand curve for gasoline to shift to the right?

- \* a. a fall in the price of cars
  - b. an increase in the supply of gasoline
  - c. a fall in the price of gasoline
  - d. a rise in the price of cars
- 

6. If the price of product 'X' decreases, the demand for a close substitute product 'Y':

- a. is inelastic
  - \* b. will shift to the left
  - c. will not be affected
  - d. is elastic
- 

7. To say that oatmeal is an inferior good, as economists use the term

- a. means that as the price of oatmeal falls, the quantity demanded of oatmeal falls
  - b. means that there is no real income effect when the price of oatmeal changes
  - c. provides an example of a normative statement
  - \* d. means that as the average level of income falls, the demand for oatmeal rises
  - e. means that the supply of oatmeal is perfectly inelastic
- 

8. Assuming that over the last three years the equilibrium quantity of wheat has risen while over the same period the equilibrium price has not changed, which of the following is the most likely explanation of these facts?

- \* a. An increase in the number of consumers and a reduction in input prices
  - b. A reduction in the price of a substitute for wheat and a reduction in input prices
  - c. A reduction in consumers' income wheat is a normal good and an increase in input prices
  - d. An increase in consumers' income wheat is a normal good and an increase in input prices
- 

9. Price ceilings and price floors are usually intended to benefit:

- a. government by increasing government revenue
  - \* b. buyers (ceilings) and sellers (floors)
  - c. buyers
  - d. sellers
- 

10. If the percentage change in quantity demanded for a product is smaller than the percentage change in price, then demand for the good is

- a. infinitely elastic
  - b. of unitary elasticity
  - c. perfectly inelastic
  - \* d. inelastic
  - e. elastic
-

11. Two goods are complements in consumption if:
- both are inferior goods
  - \* b. the cross elasticity of demand between them is negative
  - both have negative price elasticities
  - one has a positive elasticity and the other has a negative price elasticity
- 
12. Utility analysis suggests that
- a consumer will purchase only one good at a time
  - \* b. there is an inverse relationship between price and quantity demanded
  - the law of demand is nonsense
  - a consumer will always purchase goods in pairs
- 
13. Consumers' surplus means
- total expenditure divided by the price per unit
  - \* b. the difference between the maximum price a consumer would have been willing to pay for a good and the actual price paid
  - value in use
  - value in exchange
- 
14. The demand for a foreign currency results primarily from the:
- supply of domestically produced goods and services
  - demand for goods and services produced domestically
  - supply of that foreign currency at a given exchange rate
  - \* d. demand for foreign goods and services
- 
15. A tax imposed only on an imported good is a
- subsidy
  - embargo
  - quota
  - \* d. tariff
- 
16. The cost that does NOT vary with the quantity of output that a firm produces is
- average variable cost
  - average fixed cost
  - total variable cost
  - total cost
  - \* e. total fixed cost
- 
17. The meaning of the term "marginal cost" is most closely described by which of the following statements?
- unavoidable expenditures that must be paid regardless of the firm's output
  - \* b. the increase in total costs which occurs if output increases by one unit
  - total variable cost divided by quantity
  - the total costs associated with producing some specific level of output
- 
18. 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
- 

19. In the short run, if average variable costs equal \$6 and average total costs equal \$10 and output equals 100, then total fixed costs equal:

- a. \$16
  - b. \$1,600
  - c. \$4
  - \* d. \$400
  - e. \$0.025
- 

20. The factors which cause economies and diseconomies of scale help explain

- \* a. why the firm's long-run average total cost curve is U-shaped
  - b. the profit-maximizing level of production
  - c. the distinction between fixed and variable costs
  - d. why the firm's short-run marginal cost curve cuts the short-run average variable cost curve at its minimum point
- 

21. The additional revenue a firm receives from selling an extra unit of output is

- a. average revenue
  - b. marginal profit
  - c. total revenue
  - \* d. marginal revenue
  - e. price
- 

22. 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
- 

23. A profit-maximizing firm will produce that level of output where

- \* a. marginal revenue equals marginal cost
  - b. marginal cost equals marginal product
  - c. price equals average cost
  - d. price equals variable cost
  - e. marginal revenue exceeds marginal cost by the maximum amount
- 

24. In the short run if a profit-maximizing firm is incurring losses, it will

- a. produce if it can cover its fixed costs
- \* b. produce if price exceeds average variable cost
- c. shut down

d. go out of business

---

25. When firms leave a perfectly competitive market, other things equal,
- a. market demand will increase and market price will rise
  - b. market demand will decrease and market price will fall
  - \* c. market supply will decrease and market price will rise
  - d. market supply will decrease and market price will fall
- 

26. Which of the following is characteristic of perfectly competitive firms in long-run equilibrium?
- a. firms experience diseconomies of scale
  - \* b. firms produce at minimum average total cost
  - c. price exceeds marginal cost
  - d. firms earn positive economic profit
- 

27. Assume that at the current output level, a monopolist is breaking even (profit equals zero), has a marginal revenue of \$7, and a marginal cost of \$4. Which of the following statements is correct?
- \* a. The firm could increase its profit by increasing its output
  - b. The firm could increase its profit by decreasing its output
  - c. The firm is producing the profit-maximizing output
  - d. The firm could increase its profit by increasing its price
- 

28. If a monopolist lowers price and total revenues rise, then
- a. average revenue must be less than marginal revenue
  - b. there must be no close substitutes for the monopolist's product
  - c. the monopolist must be in the inelastic region of its demand curve
  - \* d. the marginal revenue must be positive
- 

29. Two of the characteristics of monopolistic competition are
- a. many firms, identical products
  - \* b. many firms, different products
  - c. a single firm, several products
  - d. a single firm, one product
- 

30. In monopolistic competition, the demand curve facing a firm will become more elastic the:
- a. greater the obstacles to entry
  - b. greater the elasticity of its supply curve
  - \* c. greater the number of sellers
  - d. fewer the number of sellers
- 

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. If a cartel determines the profit-maximizing quantity for the whole group, it will choose the quantity at which
- price is highest
  - cost is lowest
  - \* marginal cost equals marginal revenue
  - marginal cost equals demand
- 

33. All markets that are NOT perfectly competitive have which of the following characteristics?
- each firm's demand curve is the industry demand curve
  - products that the various firms sell are always differentiated to some extent
  - \* firms in the market have some control over price (face a downward sloping demand curve)
  - there are only a few firms in the industry
  - all the firms make substantial profits
- 

34. For price discrimination to be possible between different buyers, the seller must, among other things,
- \* prevent resale of the commodity
  - rely on the ignorance of one consumer about what other consumers are paying
  - produce at decreasing cost
  - face an inelastic demand
- 

35. Marginal revenue product (MRP) equals
- the product's price times marginal product
  - the product's price times marginal cost
  - marginal revenue times the product's price
  - \* marginal revenue times marginal product
- 

36. The firm's demand curve for an input is downward sloping because of the
- willingness of workers to offer more labor at a higher price
  - \* law of diminishing marginal productivity
  - fact that most firms buying factors of production are at least partial monopolists
  - fact that unions exist in many labor markets
- 

Use the table below to answer question number 36

Number of Workers	Wage Rate	Marginal Revenue Product
0	\$4	-
1	\$4	\$6
2	\$4	\$5
3	\$4	\$4
4	\$4	\$3

37. According to the information in the table above, the number of workers that should be hired to maximize profit is:
- 1
  - 0

- c. 4
  - \* d. 3
- 

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
- 

39. A firm which is the sole employer in a particular area may be classified as
- a. an oligopolist
  - b. a duopolist
  - c. a monopolist
  - \* d. a monopsonist
- 

40. The wage rate a monopsonist would pay
- \* a. is less than the marginal revenue product
  - b. is equal to the marginal factor cost
  - c. is equal to the marginal revenue product
  - d. is greater than the marginal revenue product
  - e. is greater than the marginal factor cost
-