Microeconomics

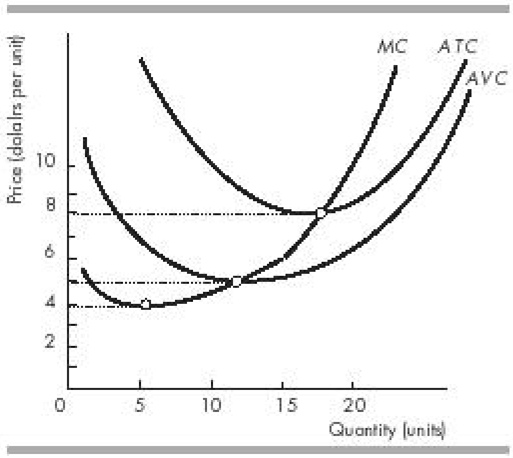
1. Suppose a firm in a perfectly competitive market produces and sells 8 units of output and has a marginal revenue of $8.00. What would be the firm's total revenue if it instead produced and sold 4 units of output?
   A. $4
   B. $8
   C. $32
   D. $64

2. For a monopoly, when does marginal revenue exceed demand?
   A. When output is less than profit maximizing output.
   B. When output is greater than profit maximizing output.
   C. Never.
   D. None of the above.

3. When there is a surplus in a market
   A. there is downward pressure on price
   B. there is upward pressure on price
   C. the market could still be in equilibrium
   D. there are too many buyers chasing too few goods.

4. Marginal cost is the change is cost that results from a one unit increase in
   A. price
   B. cost
   C. output
   D. revenue

5. If an increase in the price of gasoline increases the demand for gas/electric hybrid cars, then
   A. hybrid cars are an inferior good.
   B. gasoline and hybrid cars are complements in consumption.
   C. gasoline is an inferior good.
   D. gasoline and hybrid cars are substitutes in consumption.



6. In the above figure, at a price of $5, the firm's output would be _______units and it would ________.
   A. 12; incur an economic loss
   B. 5; shutdown
   C. 16; breakeven
   D. 12; breakeven

7. In order to be successful, a cartel must
   A. find a way to encourage members to produce more than they would otherwise produce
   B. agree on the total level of production for the cartel, but they need not agree on the amount produced by each member
   C. agree on the total level of production and on the amount produced by each member
   D. agree on the prices charged by each member, but they need not agree on amounts produced

8. Which of the following is correct about firms in an oligopoly?
   A. Each firm has complete control over its own selling price.
   B. All firms independently charge monopoly prices.
   C. No one firm controls price, but each has an influence on the price.
   D. There is no competition in oligopoly industries

9. A category 5 hurricane hits central Florida wreaking havoc with the orange crop. The devastation causes the
   A. supply curve for orange juice to shift to the left, causing the price of orange juice to fall
   B. supply curve for orange juice to shift to the left, causing the price of orange juice to rise
   C. supply curve for orange juice to shift to the right, causing the price of orange juice to rise
   D. supply curve for orange juice to shift to the right, causing the price of orange juice to fall

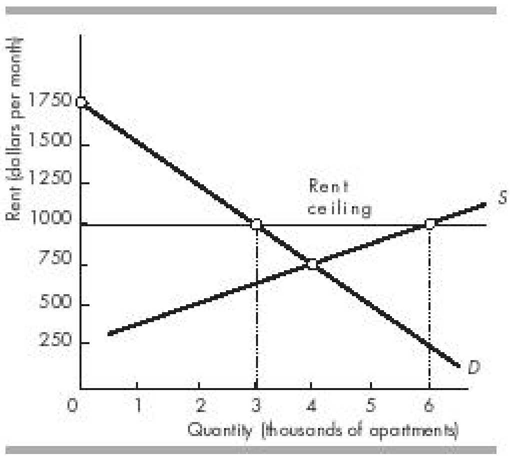
10. The downward slope of a demand curve
   A. represents the law of demand
   B. shows that as the price of a good rises, consumers increase the quantity they demand
   C. indicates how quantity demanded changes when incomes rise and the good is normal
   D. indicates how demand changes when incomes rise and the good is normal

11. When a person has a comparative advantage in producing a good or service, the person has a(n)
   A. higher opportunity cost in producing that product than someone else
   B. constant opportunity cost in producing that product
   C. increasing opportunity cost in producing that product
   D. lower opportunity cost in producing that product than someone else

12. The long run is a time period that is
   A. five years or longer
   B. long enough to change the level of labor hired
   C. long enough to change the size of the firm’s plant
   D. ten years or longer

13. Consumer surplus is
    A. the quantity of a good consumers get but did not have to pay for
    B. the amount a consumer has to pay less the amount the consumer was willing to pay
    C. the amount the consumer was willing to pay less the amount the consumer paid
    D. the total value of a good to a consumer

14. A firm that is a price taker faces a perfectly
    A. elastic supply curve
    B. inelastic demand curve
    C. elastic demand curve
    D. inelastic supply curve



15. The above figure shows the demand and supply curves for housing. What would be the effects of a rent ceiling equal to $1000 per month?
    A. nothing because the rent ceiling has no effect on the equilibrium price and quantity.
    B. a shortage equal to 3000 apartments.
    C. a surplus equal to 3000 apartments.
    D. a surplus equal to 250 apartments.

16. New firms will exit a perfectly competitive market when:
    A. average variable costs are less than average total costs
    B. price is greater than average variable costs
    C. marginal revenue is greater than average total costs in the short run
    D. price is less than average total costs in the long run

17. A point on the production possibilities frontier reflects an
    A. attainable point with full employment of all resources
    B. attainable point without full employment of all resources
    C. unattainable point with full employment of all resources
    D. unattainable point without full employment of all resources

Quantity (dozens of sea shells per day)	Total variable cost (dollars)
200	60.00
201	61.00
202	62.50
203	64.00
204	66.00
205	68.50
206	72.00

18. Sue's Sea Shells by the Sea Shore is a perfectly competitive firm selling sea shells at the market price of \$3.50/dozen. Sue's Sea Shells by the Sea Shore has fixed costs of \$30/day and a daily variable cost schedule in the table above. The profit-maximizing level of output for Sue's Sea Shells by the Sea Shore is

A. 202 dozen sea shells by the sea shore per day.
B. 204 dozen sea shells by the sea shore per day.
C. 206 dozen sea shells by the sea shore per day.
D. 205 dozen sea shells by the sea shore per day.

19. If Pizza Hut raises the price of a slice of pizza from \$3.00 to \$3.25, the quantity demanded decreases from 1,500 slices per week to 1,300 slices per week. The demand for slices of pizza is ________ and the total revenue received by this Pizza Hut ________.

A. elastic; decreases
B. inelastic; decreases
C. elastic; increases
D. inelastic; decreases

20. Paula Deen runs a seafood restaurant in Savannah, Georgia. Her total revenue last year was \$150,000. The rent on her restaurant was \$48,000, her labor costs were \$42,000, and her materials, food, and other variable costs were \$20,000. Paula Deen could have worked as a cookbook writer and earned \$40,000 per year or as a chef in another restaurant and earned \$35,000. Paula Deen's economic profit is equal to

A. \$0.0 per year.
B. \$5,000 per year.
C. –\$35,000 per year.
D. \$40,000 per year.

21. A drop in the price of a compact disc shifts the demand curve for prerecord tapes leftward. From that you know that compact discs and prerecorded tapes are

A. inferior goods
B. substitutes
C. complements
D. normal goods

22. To access Internet services, consumers must use a computer. If computer prices fall, what is the effect on the demand for Internet services?

A. The demand for Internet services increases.
B. The demand for Internet services decreases.
C. The demand for Internet services does not change.
D. The demand for Internet services could increase, decrease, or stay the same depending on other factors.

23. An increase in price causes an increase in total revenue when

A. demand is elastic
B. demand is inelastic
C. demand is unit elastic
D. All of the above are possible.

24. When a tax is levied on a good
    A. the market price falls because demand declines
    B. the market price falls because supply falls
    C. a wedge is placed between the price buyers pay and the price sellers receive
    D. the market price rises because demand falls

25. What happens to the demand for a good if a complement's price increases?
    A. The demand decreases and the demand curve shifts rightward.
    B. The demand increases and the demand curve shifts rightward.
    C. There is no impact on demand for the good and the demand curve does not shift.
    D. The demand decreases and the demand curve shifts leftward.

26. If a monopolist faces a downward sloping market demand curve, its
    A. average revenue is always less than marginal revenue
    B. marginal revenue is greater than the price of the units it sells
    C. average revenue is less than the price of its product
    D. marginal revenue is always less than the price of the units it sells

27. Producer surplus is
    A. the difference between the marginal benefit of consuming the good and the marginal cost of producing the good.
    B. the difference between the willingness to pay for the good and the marginal cost of producing the good.
    C. the difference between the market price and the marginal cost of producing the good.
    D. the difference between the market price and the willingness to pay for the good.

28. In a perfectly competitive market, if firms are earning an economic profit, the economic profit
    A. attracts entry by more firms, which lowers the market price
    B. can be earned both in the short run and long run
    C. is less than the normal profit
    D. leads to a decreases in market demand

29. A monopoly market
    A. generally fails to maximize total economic well being
    B. always maximizes total economic well being
    C. always minimizes consumer surplus
    D. generally fails to maximize producer surplus

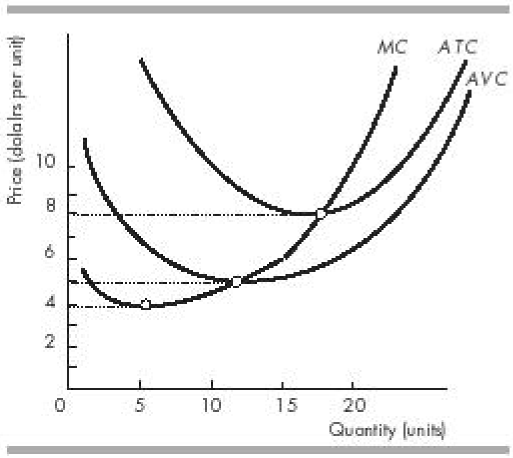
30. Holding all other things constant, a higher price for ski lift tickets would
    A. increase the number of skiers
    B. increase the price of skis
    C. decrease the number of skis sold
    D. decrease the demand for other winter recreational activities

31. Economic growth is shown on the production possibility frontier as
    A. the curvature of the PPF
    B. an inward shift in the PPF
    C. an outward shift in the PPF
    D. a movement from one point on the PPF to another

32. Rachel Ray quit her job as a chef making $30,000 per year to start her own restaurant in New York City. The first year, Rachel's restaurant earned $120,000 in revenue. Rachel pays $50,000 per year in wages to the waitresses and hostess, $20,000 per year to buy food and other supplies plus $10,000 for rent and utilities. What is Rachel's economic profit for the year?
    A. $0
    B. $10,000
    C. $40,000
    D. $80,000

33. Perfectly inelastic demand means that consumers
    A. are willing to buy any quantity of the good at a given price, but none at a higher price
    B. decrease their consumption as price rises
    C. increase their consumption as price rises
    D. will buy a certain quantity, regardless of price

34. Which of the following would change the quantity supplied for a good or service?
    A. a change in the technology used to produce the good or service
    B. a change in the price of inputs used to produce the good or service
    C. a change in expectations about the price of the good or service
    D. a change in the price of the good or service



35. In the **above** figure, at a price of $7, the firm's output would be _______units and it would ________.
    A. 16; earn an economic profit
    B. 0; shutdown
    C. 16; incur an economic loss
    D. 10; incur an economic loss

36 Suppose that the quantity of Pepsi demanded declines from 103,000 gallons per week to 97,000 gallons per week as a consequence of a 10 percent increase in the price of Pepsi. The price elasticity of demand (in absolute value)
    A. 1.66.
    B. 6.00.
    C. 0.60.
    D. 1.40.

37. In the long run, a profit maximizing firm will choose to exit a market when
    A. fixed costs exceed total costs
    B. total revenue from production is less than total costs
    C. average fixed cost is rising
    D. marginal cost exceeds marginal revenue at the current level of production

38. An implicit cost is
    A. when a money payment is made only because a factor of production is used
    B. when a factor of production is used but a money payment is not made
    C. when a money payment is made
    D. not relevant to an entrepreneur’s decision making

39. When oligopolistic firms interacting with one another each choose their best strategy given the strategies chosen by other firms in the market, we have
    A. a cartel
    B. the perfect competitive outcome
    C. the Nash equilibrium
    D. monopolistic competition

40. The price of salsa rises. How does the increase in the price of salsa affect the supply of salsa?
    A. The supply of salsa increases.
    B. The supply of salsa decreases.
    C. There is no change to either the supply of salsa or the quantity supplied of salsa.
    D. There is no change to the supply of salsa but the quantity supplied of salsa increases.

41. The exit of firms out of a competitive market causes the supply curve to:
    A. shift leftward
    B. shift rightward
    C. none of the above for the exit of firms has no effect on the position of the supply curve
    D. shift either left or right depending on the number of firms leaving the market

42. Firms in monopolistic competition compete on
    A. price
    B. quality
    C. advertising
    D. all of the above are correct

43. In production of goods and services, tradeoffs exist because
    A. buyers and sellers often negotiate prices
    B. society has only a limited amount of productive resources
    C. not all production is efficient
    D. human wants and needs are limited at a particular point in time

44. If a good has a lot of substitutes, then its demand is
    A. elastic
    B. inelastic
    C. unit elastic
    D. elastic or inelastic depending on whether the price is increasing or decreasing

45. A tax on sellers of maple syrup will
    A. reduce the equilibrium price of maple syrup and increase the equilibrium quantity of maple syrup
    B. reduce the equilibrium price of maple syrup and reduce the equilibrium quantity of maple syrup
    C. increase the equilibrium price of maple syrup and reduce the equilibrium quantity of maple syrup
    D. increase the equilibrium price of maple syrup and increase the equilibrium quantity of maple syrup

46. In contrast to perfectly competitive markets, monopolists
    A. do not have to worry about market demand
    B. sell only if demand is inelastic
    C. can never incur an economic loss
    D. can earn an economic profit indefinitely

47. In the prisoner's dilemma,
    A. the prisoners easily collude in order to achieve the best possible payoff for both
    B. only one player has a dominant strategy
    C. when each player chooses his dominant strategy the players achieve the best joint outcome
    D. when each player chooses his dominant strategy the players reach a Nash equilibrium

48. Firms entering a perfectly competitive market will cause the price of the product to:
    A. decrease
    B. increase
    C. remain constant
    D. respond more to consumer demand than supply

49. In a typical cartel agreement, the cartel maximizes profit when it
    A. behaves like a monopoly
    B. behaves like a perfectly competitive firm
    C. behaves like a duopoly
    D. is flexible in enforcing production targets

50. Oligopoly is a market structure in which
    A. many firms each produce a slightly differentiated product
    B. one firm produces a unique product
    C. a small number of firms compete
    D. many firms produce an identical product

51. A furniture maker currently produces 100 tables per week and sells them for a profit. She is considering expanding her operation in order to make more tables. Should she expand?
    A. Yes, because making tables is profitable.
    B. No, because she may not be able to sell the additional tables.
    C. It depends on the marginal cost of producing more tables and the marginal revenue she will earn from selling more tables.
    D. It depends on the average cost of producing more tables and the average revenue she will earn from selling more tables.

52. Which of the following is a characteristic of monopolistic competition?
    A. One seller serving the entire market.
    B. When each firm sells an identical product.
    C. When firms do not compete on a product's quality, price, and marketing.
    D. When firms are free to enter and exit the market.

53. The prisoners' dilemma provides insights into the
    A. difficulty of maintaining cooperation.
    B. benefits of avoiding cooperation.
    C. benefits of government ownership of monopoly.
    D. ease with which oligopoly firms maintain high prices.

54. For a profit-maximizing monopolist,
    A. $P > MR = MC$.
    B. $P = MR = MC$.
    C. $P > MR > MC$.
    D. $MR < MC < P$.

55. A situation in which firms choose their best strategy given the strategies chosen by the other firms in the market is called
    A. a competitive equilibrium
    B. an open market solution
    C. the Nash equilibrium
    D. the cartel equilibrium

56 The market for Fossil T-shirts has a market demand function $\mathbf{Q_d = 530 - 12P}$ and as supply function $\mathbf{Q_s = -150 + 8P}$. Find the equilibrium price and quantity. Then draw the demand and supply curves, making sure you properly indicate the equilibrium. Finally, find the price elasticity of demand between the equilibrium price and a market price of $25. If Fossil wishes to decrease the price of its T-shirts to $25, what impact would this have on Fossil's total revenue? **Explain.**

Make sure you show how you calculate the elasticity value.

Bullseye

Hallmart		**400**	**300**
	400	(20,20)	(10,60)
	300	(60,10)	(15,15)

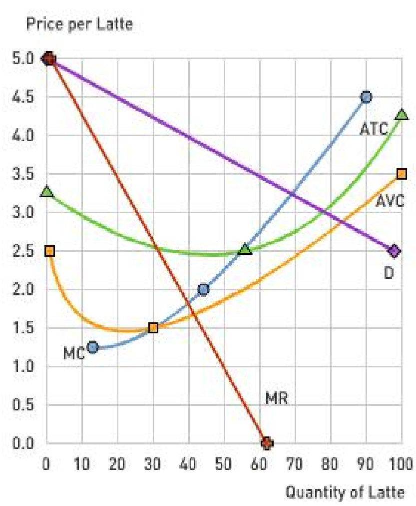
57. In an isolated town in Alabama, there are two discount stores, Bullseye and Hallmart. They are competing to sell the new Xbox game system (and have an ample supply of them). They want to maximize profits, and need to decide what price to charge; for simplicity, assume that they can only charge $400 or $300. The table above is a payoff matrix that details their possible price decisions **[the numbers in bold are prices that they can choose]** and the payoffs (measured profit for the month, in thousands) from their choices). These are depicted in the payoff matrix in the usual *(row, column)* format. Based upon this information:

A. Determine the best responses for Hallmart and Bullseye;
BE SURE TO SHOW ALL WORK

B. Find the Nash equilibrium (if it exists);

C. Is there a dominant strategy? Explain briefly.

D. Would there be something that Hallmart and Bullseye could do to improve their situation? Be sure to note any problems that might arise if they resort to this option. Explain.



58. The above graph represents Celestial Dollars coffee, the **only** coffee shop in Tuscaloosa. Using the figure **above**, answer the following questions.

A. Based on the **above** diagram, what is Celestial Dollars' profit maximizing level of output and what price does they charge for their specialty, a mocha latte?

B. Based on the **above** diagram, what is Celestial Dollars' total revenue and total cost?

C. Given the quantity and price you obtained in part A, calculate the profit or loss Celestial Dollars receives.

Labor (workers)	Output (bikes)	Total Fixed Cost (Dollars)	Total Variable Cost (Dollars)	Total Cost (Dollars)
0	0	150		
1	20		150	
2	32			
3	40			
4	45			

59. The table above gives costs for bicycle repairs at Packy's Bike Shop. Each worker is paid $150 a day. Labor costs are the only variable costs of production.

A. Using this information, begin by filling in the table.
B. Next calculate, average total cost (ATC), average variable cost (AVC) and marginal cost (MC) if the firm produces 40 repairs. [hint 1: make sure that you know what values to use in calculating average and marginal costs; hint 2: you may want to calculate MC for all of the possible output levels]

Now, assume that the bike shop operates in a perfectly competitive market and the market price is $30.00. Based upon this information, determine the profit maximizing output, as well as the profit at that output level. Given this result, what should you expect to happen in the bike shop market.

ANSWERS TO MULTIPLE CHOICE QUESTIONS

1	C	26	D
2	C	27	C
3	A	28	A
4	C	29	A
5	D	30	C
6	A	31	C
7	C	32	B
8	C	33	D
9	B	34	D
10	A	35	C
11	D	36	C
12	C	37	B
13	C	38	B
14	C	39	C
15	A	40	D
16	D	41	A
17	A	42	D
18	C	43	B
19	A	44	A
20	A	45	C
21	B	46	D
22	A	47	D
23	B	48	A
24	C	49	A
25	D	50	C
		51	C
		52	D
		53	A
		54	A
		55	C