

1. Point that lie inside a country's production possibilities frontier are:

- A. efficient but infeasible
- B. efficient and infeasible
- C. inefficient but feasible
- D. not feasible.

2. The opportunity cost to society of producing an additional automobile is:

- A. the profit to be made from producing the automobile.
- B. the dollar cost of producing the automobile.
- C. the cheapest method of producing the automobile.
- D. the value to society of the best alternative use of the resources used to make the automobile.

3. Which of the following will not cause the demand for butter to change.

- A. a change in the price of bread, a complement.
- B. a change in the price of margarine, a substitute.
- C. a change in the price of butter.
- D. a decrease in average income.

4. The law of demand is explained by the law of:

- 1. diminishing marginal utility.
- 2. diminishing returns.
- 3. decreasing opportunity cost
- D. decreasing elasticity of demand.

5. If the equilibrium price of aspirins is \$2.50 for 250 tablets and a price floor is imposed at \$3 for 250 tablets, the result will be a(n):
- A. surplus
 - B. shortage
 - C. depletion of inventories.
 - D. equilibrium

6.

7. The price elasticity of demand for a good is an attempt to measure:
- A. consumer response to a change in demand.
 - B. the change in the amount purchased resulting from a change in tastes.
 - C. the change in the price of a good resulting from a change in the cost of production.
 - D. consumer response to a price change.

8. The price of product X is reduced from \$100 to \$80 and as a result the quantity demanded increases from 50 to 70 units. From this we can conclude that demand for X:

- A. is elastic.
- B. is inelastic.
- C. is of unit elasticity.
- D. has declined.

9. Suppose the price elasticities of demand for demand schedules D1, D2, D3, D4 are 1.43, 0.67, 1.15 and 0.29 respectively. A 1% INCREASE in price will result in an INCREASE in total revenue in the case(s) of:

- A. D4 and D1
- B. D2 and D4
- C. D3 and D4
- D. D1 and D3

10. If demand for product is inelastic, consumers:

- A. can use it for only one purpose.
- B. will spend the same amount of money on it regardless of its price.
- C. will spend the ~~more~~ ^{more money on} ~~more~~ ~~money~~ ~~on~~ it when its price rises.
- D. try to make their dollars stretch as far as possible.

11. A sporting goods store observes that as they reduce the price of squash balls from \$5 to \$4 their quantity demanded rises from 200 to 220. The price elasticity of demand of squash balls can be estimated to be about.

- A. 0,1.
- B. 0,4.
- C. 2,3.
- D. 5.

12. If Wright state University increases its tuition the amount of money collected from its students will:

A. decrease if the demand for its educational services is ELASTIC.

B. decrease if the demand for its educational services is INELASTIC.

C. decrease regardless of the price elasticity of demand for its services.

D. increase regardless of the price elasticity of demand for its services.

13. In deciding between a high quality but expensive item and one that is of low quality but inexpensive, the utility maximizing consumer should choose the one which:

A. is least costly

B. is of highest ~~marginal utility~~ quality.

C. yield the highest marginal utility.

D. yield the highest marginal utility per dollar.

14 Each week the Jones family buys 4 dozens eggs no matter what the price. The family demand for eggs is:

- A. unitary elastic.
- B. perfectly elastic.
- C. perfectly inelastic.
- D. unknown.

15 One of the airline industry's arguments against deregulation of air fares had been that the resulting fall in prices would reduce airline total revenue. Instead, after deregulation actually took place total revenue rose. It can be concluded that:

- A. airline representative had thought demand for plane trips was elastic.
- B. airline were more profitable after regulation.
- C. demand for airline service increased with the fall in price.
- D. quantity demanded for airline service increased by a greater percentage than the percentage fall in price.

16 As the price of a good decreases consumer surplus.

- A. increases.
- B. decreases.
- C. stays the same.
- D. may increase or decrease or stay the same.

17. In a typical market with a downward sloping demand curve and an upward sloping supply curve an excise tax of \$1 will cause the price to increase by

- A. \$1
- B. more than \$1
- C. less than \$1
- D. an unknown amount we need to know who collects this tax to answer.

18. The short run is a period during which

- A. all inputs are variable and no inputs are fixed.
- B. some inputs are variable and some inputs are fixed.
- C. no inputs are variable and ~~no~~^{all} inputs are fixed.
- D. no inputs are variable and some inputs are fixed.

19. How long is the long run?

- A. Long enough for the firm to make a profit.
- B. Long enough that all costs can become variable.
- C. Long enough to achieve economies of scale.
- D. Must always be longer than ten¹⁰ years.

20. The increase in output obtained by hiring an additional worker is known as:

- A. the average product.
- B. the total product.
- C. the marginal product.
- D. value added.

Use the following information to answer Questions 21 and 22

Quantity	Total Cost	Total Revenue
10	\$ 25	50
20	60	100
30	105	150
40	160	200

21. Based on the above information a perfectly competitive profit maximizing firm would produce
- A. 10 units of outputs
 - B. 20 units of output.
 - C. 30 units of output.
 - D. 40 units of output.
 - E. None of the above.

22. Refer to the table above, The maximum of profit that the perfectly competitive firm represented by the above data could earn is
- A. \$25
 - B. \$35
 - C. \$45
 - D. \$55
 - E. None of the above.

23 The supply curve of perfectly competitive firm is

- A. the segment of the marginal cost curve that lies above the average variable cost curve.
- B. the segment of the marginal cost curve that lies above the average total cost curve.
- C. The segment of the average total cost curve that lies above the average variable cost curve.
- D. non-existent.

24. A monopoly

- A. faces a perfectly elastic demand curve.
- B. can charge any price to sell any quantity because it's the only seller.
- C. raises the price of its product by increasing the quantity sold.
- D. raises the price of its product by decreasing the quantity sold.

25 In the early 2000s car makers began to cut the cost of producing cars by designing chassis, engine, and transmissions so that different models could be produced on the same assembly line. Within the first year of implementing the plan, production costs were cut by \$240 per car. This idea best illustrates:

- A. economies of scale.
- B. diseconomies of scale.
- C. constant returns to scale.
- D. diminishing marginal product.

26. For a monopolist marginal revenue is:

- A. equal to price.
- B. greater than price.
- C. below price.
- D. constant.

27. Compared to perfectly competitive industry, a monopolist

- A. produces a large quantity.
- B. charges a higher price.
- C. increases consumer surplus.
- D. all of the above.

28. One of the major differences between a monopolist and perfectly competitive firm is that the monopolist has a downward-sloping demand curve, while the perfectly firm has a perfectly elastic demand curve.

- A. downward-sloping; perfectly elastic.
- B. perfectly inelastic; perfectly elastic.
- C. downward-sloping; perfectly inelastic.
- D. perfectly elastic; downward-sloping.

29.

30. Price discrimination is not possible unless

- A. All buyers are the same.
- B. The market is perfectly competitive.
- C. The product sold to each customer has a different cost.
- D. Resale can be prevented.

31. Price discrimination is the practice of charging different price to

- A. different customers even though cost of selling to each is the same.
- B. different customers because the cost of selling are different.
- C. the same customers because of changes in cost.
- D. different countries because of ~~the~~ tariff and transportation costs.

32. The price elasticity of demand for any particular perfectly competitive firm's output is

- A. Less than 1.
- B. 1.
- C. equal to zero.
- D. infinite.

33. The demand curve for a monopoly is:

- A. The same for firm as for the industry.
- B. greater for the industry than for the firm.
- C. flatter for the firm than for the industry.
- D. None of the above correct.

34. In a perfectly competitive market:
- A. firms set prices and quantities.
 - B. firms set quantities but not prices.
 - C. firms set prices but not quantities.
 - D. firms set neither prices nor quantities.

35. To maximize profits, a perfectly competitive firm should produce:
- A. where $P > ATC$.
 - B. where $P = MC$.
 - C. where $TR = TC$.
 - D. where $MR = TC$.

Answer questions 36, 37 using the following data:

Quantity	Marginal cost
1	\$ 3
2	\$ 5
3	\$ 7
4	\$ 9

36. If the market price is \$ 4 a perfectly competitive profit-maximizing firm would produce.
- A. 4 unit of output.
 - B. 3 unit of output.
 - C. 2 unit of output.
 - D. 1 unit of output.

37. The average variable cost of 3 units is:
- A. \$ 3.
 - B. \$ 2.
 - C. \$ 7.
 - D. ~~not~~ not enough information to tell.

38. A profit-maximizing firm should not produce in the short run if:

- A. price is not at least equal to average fixed cost.
- B. price is not at least equal to average total cost.
- C. price is not at least equal to average variable cost.
- D. price exceeds average total cost.

39. Under monopolistic competition:

- A. sellers earn economic profits in the long-run.
- B. new firms cannot enter in the long-run.
- C. sellers have some monopoly power.
- D. sellers are not maximizing profits.

40. In the short-run a firm in monopolistic competition produces where.

- A. $MR = MC$ and economic profit is equal to zero.
- B. $MR = MC$.
- C. the given market price is equal to MC and economic profit is equal.
- D. the given market price is equal to MC .

41. In an oligopoly:

- A. there are a few sellers.
- B. there are some barriers to entry.
- C. firms recognize their interdependence.
- D. all of the above are true.

42. The model that assumes that oligopolies act jointly as if they were monopolists is the:

- A. cartel model.
- B. contestable market model.
- C. monopolistically competitive model.
- D. competitive model.

43. The kinked demand curve model assumes that:

- A. rivals will follow a price increase but not a price decrease.
- B. rivals will follow a price decrease but not a price increase.
- C. the firm with kinked demand curve will always behave noncooperatively.
- D. the firm with the kinked demand curve will face a prisoner's dilemma.

44. The Clayton Act prohibits interlocking directorships primarily in order to:

- A. provide more democratic business organizations.
- B. encourage more Americans to serve on firm boards.
- C. discourage coordinated pricing and production policies.
- D. discourage the concentration of wealth in the country.

45. A contract in which a buyer must agree to deal exclusively with one seller and purchase goods from competing sellers is considered a:

- A. tie-in contract.
- B. low-price contract.
- C. price discrimination contract.
- D. combination contract.

46. The value of marginal product is equal to:

- A. marginal product times the wage rate.
- B. average product times the wage rate.
- C. marginal product times the price per unit of output.
- ~~B. the value of the marginal product~~
- D. average product times the price per unit of output.

47

48. The labor demand curve:

- A. slopes up ~~because~~ because as the wage rate rises, fewer workers are demanded
- B. slopes down because as the wage rate raise fewer workers are demanded
- C. shifts in when wages rise.
- D. shifts out when wages fall.

50. The demand for factors of production is called a "derived demand" because:
- A. It is derived from the demand for the output that one produced by the factors of production.
 - B. It is derived from the available supply of factors such as land that can be over-exploited.
 - C. It is not easy to determine and must be derived by technical (and often complicated) process.
 - D. It is derived on the basis of question posed to residents during the census.

51. The labor demand curve?

- A. shifts out when the industry is monopolized.
- B. shift in when wages rise.
- C. slopes up because of the law of demand.
- D. slopes down because of the law of diminishing returns.

52. An increase in the wages of truck drivers might be explained by which of the following factors?

- A. An reduction in the price of rail transportation.
- B. An increase in competition within the trucking industry.
- C. A reduction in the demand for transportation.
- D. An increase in the price of gasoline.

53. When wages rise, the opportunity cost of:

- A. labor falls.
- B. labor rises.
- C. leisure falls.
- D. leisure rises.

54. A person who decides to work less when his wage increases:

- A. is crazy.
- B. has an income effect that dominates the substitution effect.
- C. is responding entirely to substitution effect.
- D. has a substitution effect that dominates the income effect.

55. Which of the following statements best ~~reflection~~ reflects the income effect in the labor market?

- A. "Now that my wages are so high, I feel like I'm wasting money when I'm not working."
- B. "My wages are so high, I can now afford to spend more time at home with my family rather than working."
- C. "I need income so I better spend more hours working."
- D. "My boss pays me so little, that I quit my job."

56. Over the last several years the demand for phone operators has fallen dramatically. Which of the following would be a reason for this development?

- A. an increase in the number of automated answering services.
- B. a decrease in the technology associated with phone equipment.
- C. an increase in supply of phone operations.
- D. high prices for long-distance service.

57. If the demand for widgets decreases this will:

- A. Increase the supply of inputs used to produce widgets.
- B. decrease the supply of inputs used to produce widgets.
- C. Increase the demand for inputs used to produce widgets.
- D. decrease the demand for input used to produce widgets.

58. If robotics and factory automation become more widespread in an industry and all else is held constant then:

- A. both the demand for labor and the wage rate should increase.
- B. both the demand for labor and the wage rate should decrease.
- C. the demand for labor should decrease and the wage rate should increase.
- D. the demand for labor should increase and the wage rate should decrease.

59. A market in which there is only a single seller and single buyers is a:

- A. monopoly.
- B. monopsony.
- C. bilateral monopoly.
- D. perfectly competitive market.

59. which of the following forms of discrimination is costly to the firms who engaged.

- A. Discrimination based on individual characteristics that affect job ~~perfectly~~ perform.
- B. Discrimination based on group characteristics job perform.
- C. Discrimination based on individual characteristics not relevant to job.
- D. All forms of discrimination reduce the profit of firms that discrimination.

60. All of the following are considered sources of market except.

- A. public goods.
- B. imperfect information.
- C. profit-maximizing behavior.
- D. externalities.

61. Alex is playing his music at full volume in his dorm room. The other people living on his floor find this to be nuisance, but Alex does not care. Alex's music playing of a.

- A. negative consumption externality.
- B. positive consumption externality.
- C. Negative production externality.
- D. positive production externality.

62. An externality is present in a free market whenever:
- A. a monopolist spends funds to keep potential competitors out of the market.
 - B. an activity generates costs or benefits that are not reflected in market prices.
 - C. firms hire employees from outside the firm to fill positions normally filled by promotion from within the firm.
 - D. a tax is imposed on the supplier of a good.

63. Economists consider positive externalities to be:
- A. efficient because they help others.
 - B. efficient because they reduce costs.
 - C. inefficient because the free market will tend to produce too much of those goods generating positive externalities.
 - D. inefficient because the free market will tend to produce too few of those goods generating positive externalities.

64.

65. A good which if supplied to one person is supplied to all and whose consumption by one individual does not prevent its consumption by another individual is known as:

- A. a private good.
- B. a public good.
- C. an external good.
- D. an internal good.

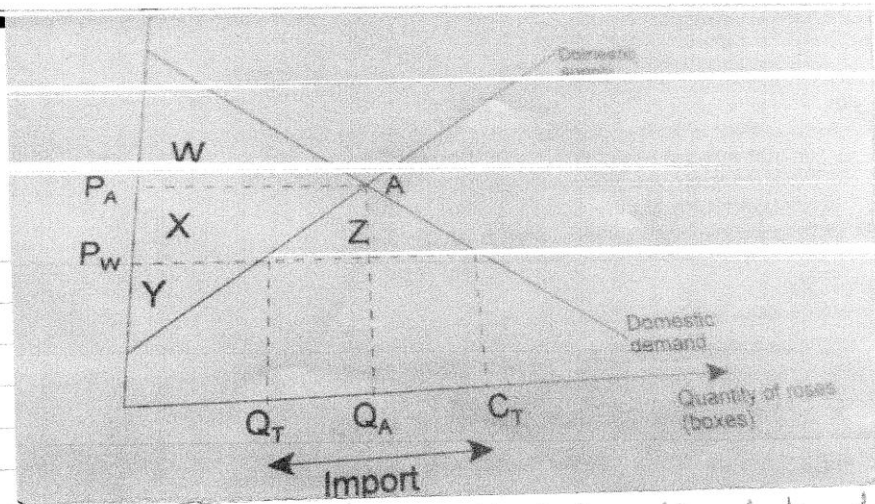
66. Which of the following is not a characteristic of a public good.

- A. Nonexclusive.
- B. Available to non-buyers.
- C. Nonrival in consumption.
- D. Can only be consumed once.

67. Public goods tend not to be sold in the marketplace because:

- A. they are by nature so expensive that only the richest buyers could afford them if sold this way.
- B. the benefits would be denied to non-buyers if sold this way.
- C. their nature is such that if supplied to one buyer, they automatically become available to non-buyers as well.
- D. there would be no demand for them because they do not yield any benefits.

68



69. Consumer surplus with international trade would

be area:

A. $W + X + Y$.

B. Z .

C. $W + X + Z$.

D. W .

↓

70. Producer surplus without international trade would be area:

A. $X + Y + Z$.

B. $W + X + Y$.

C. $X + Y$.

D. Y .

71. Producer surplus with international trade would be area:

A. $X + Y + Z$.

B. $W + X + Y$.

C. $X + Y$.

D. Y .

72. Quotas and tariffs can:

- A. have the same effect on the price of the domestically produced good if they are set appropriately.
- B. never have the same effect on imports and import prices.
- C. never have the same effect on domestic production.
- D. yield the same amount of tax revenue if they are set appropriately.

73. A quota differs from a tariff in that quotas

- A. limit the volume of imports more than tariffs.
- B. do not increase the price of imports as much as tariffs.
- C. do not generate tax revenues, unlike tariffs.
- D. reduce consumer welfare more than tariffs.

74. Most economists:

- A. oppose free trade.
- B. favor free trade.
- C. have no opinion on free trade.
- D. would prefer to have with other nations.

75. The infant-industry argument for trade protection essentially states that:

A. small traditional industries such as handicrafts should be protected from foreign competition if they would not be able to survive.

B. new industries should be protected temporarily from foreign competition until they become established.

C. industries that provide daycare for their employee's children ought to be protected from foreign competition.

D. industries that produce products essential for the well-being of infants (e.g. the baby food industry) ought to be protected, since such products are essential for the good health of future generation.