"ECONOMICS 1"

Questions on:

What is Economics?

What is Economics?

True or False

1. Scarcity is a problem only for the poor.
2. Macroeconomics studies the factors that change National employment and income.
3. "For whom are goods and services produced?" is one of the big macroeconomic questions.
4. An example of the "how" question is: "How does the nation decide who gets the goods and services that are produced?"
5. Answering the question "What goods and services are produced?" automatically answers the question, "How are goods and services produced?"
6. The opportunity cost of buying a slice of pizza for$3 rather than a burrito for $3 is the burrito.
7. A positive statement is about what is; a normative statement is about what will be.
8. The idea of ceteris paribus is used whenever a post hoc fallacy is being examined.
9. The origin is the point where a graph starts.
10. A graph showing a positive relationship between stock prices and nation production means that an increase in stock prices causes an increase in production.
11. A cross section graph compares the values of different groups of variables at a single point in time.
12. If the graph of the relationship between two variables slopes upward to the right, the relation between the variables is positive.

Multiple Choice Questions:

1. **Economics is a social science that studies the choices that individuals, businesses, governments, and entire societies make in the presence of**
   a. Poverty.
   b. Scarcity.
   c. Necessity.
   d. efficiency
2. **In economics the central problem is**
   a. Money.
   b. Scarcity.
   c. Allocation.
   d. Production
3. **The central problem of an economy is**
   a. Assigning limited resources in a way that unlimited desires and needs of the society are satisfied
   b. Ensuring a minimum income for each citizen.
   c. Assuring that production happens in the most effective way.
   d. Analyzing the demand with market economies

4. **Macroeconomics deals with**:
   e. The behavior of firms.
   f. Economic aggregates.
   g. The behavior of the electronics industry.
   h. The activities of individual units
5. **Microeconomics is not concerned with the behavior of**:
   a. Consumers.
   b. Aggregate demand.
   c. Firms.
   d. Industries.
6. **The fact that wants cannot be fully satisfied with available resources reflects the definition of**
   a. The standard of living.
   b. Scarcity.
   c. The output-inflation tradeoff.
   d. for whom to produce
7. **All of the following categories are factors of production except**:
   a. Entrepreneurship.
   b. Money.
   c. Land.
   d. Capital.
8. **The highest-valued alternative that we give up to get something is the**
   a. Marginal cost.
   b. Opportunity cost.
   c. Marginal benefit.
   d. Incentive.
9. **The question**, "**Should personal computers or mainframe computers be pro-duced?" is an example of the**
   a. "What" question.
   b. "How" question.
   c. "Where" question.
   d. "who" question.
10. **People have different amounts of income**. **This observation is most directly related to which of the big Microeconomic questions?**
   a. . The "what" question.
   b. The "how" question.
   c. . The "why" question.
   d. The "who" question.

11. **A positive statement is**

a. About what ought to be.

b. About what is.

c. Always true.

d. One that does not use the ceteris paribus clause.

12. **The Latin term ceteris paribus means**

a. "False unless proven true."

b. "Other things the same."

c. "After this, then because of this."

d. "Not correct, even though it is logical.

13. **A graphical relationship between two variables that move in the same direc–tion is called a**

a. Negative relationship.

b. Inverse relationship.

c. Linear relationship.

d. Positive relationship.

"ECONOMICS 1"

Questions on:

Demand and Supply

Demand and Supply

True or False:

1) The opportunity cost of something you decide to get is all possible alternatives that you give up to get it.
2) Statements about what ought to be are called positive statements.
3) An increase in supply combined by an increase in demand causes an increase in equilibrium price and quantity.
4) An increase in demand means a movement down and rightward a long a demand curve.
5) New technology for manufacturing computer chips is developed. That shifts the demand curve for computer chips rightward.
6) A rise in the price of chicken feed decreases the supply of chicken.
7) A rise in the price of orange juice shifts the supply curve of orange juice rightward.
8) If the expected future price of a good rises, its current price rises.
9) If both the demand and supply curves shift rightward, the equilibrium quantity increases.

Multiple choice questions:

1) The most fundamental economic problem is:

a) Security.
c)Health.

b) Scarcity.
d) The fact that we buy more goods than we sell to foreigners.

2) Microeconomics focuses on all of the following Except:

a) The purchasing decision that an individual consumer makes.
b) The hiring decisions that a business makes.
c) The effect of increasing the money supply on inflation.
d) The effect of an increase in the tax on cigarettes on cigarette sales.

3) The analysis of the behavior of individual decision- making units is the definition of:

a) Microeconomics.
b) Macroeconomics.
c) Positive economics.
d) Normative economics.

4) Macroeconomic is the branch of economics that studies:

a) Prices of individual goods.
b) The way individual markets work.
c) The economy as a whole.
d) Important, as opposed to trivial issues.

5) The opportunity cost of something you decide to get is:

a) All possible alternatives that you give up to get it.
b) The highest valued alternative you give up to get it.
c) The lowest valued alternative you give up to get it.
d) The amount of money you pay to get it.

6) The quantity demanded is:

a) Always equal to the equilibrium quantity.
b) Independent of the price of the good.
c) The amount of the good that consumers plan to purchase it at a particular price.
d) Independent of consumers' buying plans.

7) **The law of demand states that, other things remaining the same, the higher the price of a good, the**
   a) Smaller is the demand for the good.
   b) Smaller is the quantity of the good demanded.
   c) Larger the demand for the good.
   d) Larger is the quantity of the good demanded.

8) **A drop in the price of a compact disc shifts the demand curve for prerecorded tapes leftward, from what you know compact discs and prerecorded tapes are:**
   a) Complements.
   b) Inferior goods.
   c) Substitutes.
   d) Normal goods.

9) **Normal goods are those goods for which demand decreases as;**
   a) The price of a complement fall.
   b) Income decreases.
   c) The price of a substitute falls.
   d) The good's own price rises.

10) **When economists speak of preferences as influencing demand, they are referring to:**
   a) Directly observable changes in prices and income.
   b) An individual's attitude toward goods and services.
   c) The excess of wants over the available supplies.
   d) The availability of a good to all income classes.

11) **A decrease in quantity demanded caused by an increase in price is represented by a:**
   a) Rightward shift of the demand curve.
   b) Leftward shift of the demand curve.
   c) Movement up and to the left along the demand curve.
   d) Movement down and to the right along the demand curve.

12) **Which of the following will shift the supply curve for good X leftward?**
   a) A situation in which quantity demanded exceeds quantity supplied.
   b) An increase in the cost of the machinery used to produce X.
   c) A technological improvement in the production of X.
   d) A decrease in the wages of workers employed to produce X.

13) **If the quantity demanded exceeds the quantity supplied , then there is;**
   a) A shortage and the price is below the equilibrium price.
   b) A shortage and the price is above the equilibrium price.
   c) A surplus and the price is below the equilibrium price.
   d) A surplus and the price is above the equilibrium price.

14) **The price of a good will fall if;**
   a) There is a surplus at the current price.
   b) The current price is less than the equilibrium price.
   c) The quantity demanded exceeds the quantity supplied.
   d) The price of a complement falls.

15) **When supply decreases and demand does not change, the equilibrium quantity;**
  a) Increases and the price rises.
  b) Increases and the price falls.
  c) Decreases and the price falls.
  d) Decreases and the price rises.

16) **You observe that the price of a good rises and the quantity decreases. These observations can be the result of:**
  a) The demand curve shifting rightward.
  b) The supply curve shifting rightwards.
  c) The demand curve shifting leftward.
  d) The supply curve shifting leftward.

17) **If both the demand and supply increase, what will be the effect on the equilibrium price and quantity?**
  a) Both the price and the quantity will increase.
  b) The quantity will increase but the price could rise, fall, or remain the same.
  c) The price will fall but the quantity will increase.
  d) The price will rise but the quantity could increase, decrease, or remain the same.

18) **The price will rise and the equilibrium quantity might increase , decrease, or stay the same when the:**
  a) Demand and the supply of a good both increase.
  b) Demand for a good decreases and the supply of it increases.
  c) Demand for a good increases and the supply of it decreases.
  d) Demand and the supply of a good both decreases.

The following table gives the demand and supply for potato chips. Use this data to answer the questions (19- 21)

price	Q_d	Q_s
10	10	100
8	20	80
6	30	60
4	40	40
2	50	20

19) **Refer to Table 1. In the table shown, if the price were $8,**
  a) A surplus of 30 units would exist and price would tend to fall.
  b) A surplus of 60 units would exist and price would tend to rise.
  c) A surplus of 60 units would exist and price would tend to fall.
  d) A shortage of 30 units would exist and price would tend to rise.

20) **If the quantity demanded of chips that people want to buy increases by 30 does the equilibrium quantity changes to?**

a) 30
b) 50
c) 60
d) 70

21) **In (20) if the quantity of potato produced decreases by 30 at each price the equilibrium quantity change to ----------**

a) 70
b) 50
c) 30
d) 10

"ECONOMICS 1"

Questions on:

Elasticity

Elasticity

True or False

1. Elasticity is the same as the slope of the demand curve.
2. The price elasticity of demand ranges from 0 to ∞.
3. The more demanders respond to a price change, the larger the price elasticity of demand.
4. If the price elasticity of demand is positive, the demand is elastic.
5. Exxon gasoline is likely to have an elastic demand.
6. Moving along a linear demand curve to lower prices and increased quantities, the price elasticity of demand does not change.
7. People spend more on rent than on soap, so the price elasticity of demand for housing is likely to be larger than the price elasticity of demand for soap.
8. The price elasticity of demand for food is largest in poor nations.
9. As more time passes after a price change, the price elasticity of demand becomes smaller.
10. An inferior good has an income elasticity that is negative; a normal good has an income elasticity that is positive

:Multiple Choice Questions

1. The price elasticity of demand measures the responsiveness of the

a. Quantity demanded to a change in the price of a good, ceteris paribus.
b. Price to a change in the quantity supplied of a good, ceteris paribus.
c. Quantity supplied to a change in the price of a good, ceteris paribus.
d. Price to a change in the quantity demanded of a good, ceteris paribus.

2. **If the quantity demanded of chocolate chip cookies falls from 10 pounds to 5 pounds when the price of the cookies rises from $4.00 to $5.00, the price elasticity of demand is**

a. 1/3
b. 5 pounds
c. $1.00
d. 3

3. the price elasticity of demand is 3.5, an increase in price will

a. Have no effect on total revenue.
b. Have an unpredictable effect on total revenue.
c. Decrease total revenue.
d. Increase total revenue.

4. If a price cut decreases total revenue, demand is

a. Unit elastic.

b. Relatively elastic.

c. Relatively inelastic.

d. Perfectly elastic.

5. Factors that influence the elasticity of demand include all of the following except

a. Time elapsed since a price change.

b. Resource substitution possibilities.

c. Closeness of substitutes.

d. proportion of income spent on the good

6. The elasticity of demand for a good that has a lot of close substitutes is likely to be

a. Have an elasticity of zero.

b. Unit elastic.

c. Inelastic.

d. Elastic.

7. The cross elasticity of demand for a substitute is

a. Greater than zero.

b. Equal to zero.

c. Equal to one.

d. Less than zero.

8. The income elasticity of demand for an inferior good is

a. Equal to zero.

b. Less than zero.

c. Equal to one.

d. Greater than zero.

9. The momentary supply curve is

a. Elastic.

b. Perfectly elastic.

c. Perfectly inelastic.

d. Unitary elastic.

10. In the long run, demand curves and supply curves tend to become

a. Perfectly inelastic.

b. More elastic.

c. Less elastic.

d. Unitary elastic..

11. **Suppose a 50% increase in the price of a drug results in no change in the quantity demanded. What is the price elasticity of the drug?**

    a. 0
    b. b. 0.05
    c. c. 0.5
    d. 1
    e. Infinite

12. **Suppose the price elasticity of demand for a good is 0.6. When the price of the good decreases by 10%, what would we expect to happen to the quantity demanded?**

    a. It will increase by 60%
    b. It will increase by 6%
    c. It will increase by 0.6%
    d. It will decrease by 0.6%
    e. It will decrease by 6%

13. **Which is the following income elasticity could correspond to a normal good that is income inelastic?**

    a. 0.5
    b. 1.5
    c. – 1.5
    d. 2.0
    e. -0.5..

14. **Which of the following goods is most likely to have high price elasticity of demand?**

    a. A staple food.
    b. A good that forms a very small part of a person’s total budget.
    c. A good for which there are many close substitutes.
    d. A vital medicine.
    e. None of the above.

15. **Jake sells hot dogs at an outdoor stand. There are several other hot dog stands in the vicinity. There is a going price in the market for hot dogs. Which of the following statements is true about the demand for Jake's hot dogs?**

a. Demand for Jake's hot dogs is perfectly inelastic.
b. Demand for Jake's hot dogs is perfectly elastic.
c. Demand for Jake's hot dogs can be represented as a vertical line.
d. Demand for Jake's hot dogs can be represented as a downward sloping line.
e. None of the above.

16. **Suppose that the price elasticity of supply for toothpaste is 0.2. If the price of toothpaste increases by 30%, what would we expect to happen to the quantity of toothpaste supplied?**

a. increase by 3%
b. decrease by 5%
c. increase by 60%
d. decrease by 15%
e. increase by 6%

17. **Suppose a grocery store normally sells 100 cartons of milk per day and the price elasticity of demand for milk is 1.7. If the store lowers the price of milk by 10%, about how many cartons of milk will it then sell per week?**

a. 117
b. 83
c. 85
d. 100
e. 101.7

18. **Which of the following is most likely to be an inferior good?**

a. eyeglasses
b. airplane tickets
c. caviar
d. opera tickets
e. discount bus tickets

19. **Moving upward along a linear demand curve, as the price rises and the quantity demanded decreases, the price elasticity of demand**

a. Falls.

b. Does not change.

c. Rises.

d. First rises and then falls.

e. a Moving upward along a linear demand curve, the price elasticity of demand falls in value.

20. **A fall in the price of a paperback book from $6 to$4 causes a decrease in the quantity of magazines demanded from 1,100 to 900. What is the cross elasticity of demand between paperback books and magazines?**

a. 0.5

b. –0.5

c. 2.0

d. Without information about what was the change in income, it is not possible to calculate the cross elasticity of demand.

21. **Beans are an inferior good; chicken is a normal good. When people's incomes rise, the demand for beans____________________________and the demand for chicken____.**

a. increases; increases

b. increases; decreases

c. decreases; increases

d. decreases; decreases

22. ***All* normal goods have**

a. Income elasticity of demand greater than 1.0.

b. Price elasticity of demand greater than 1.0.

c. Negative price elasticity of demand.

d. Positive income elasticity of demand.

23. **If the long-run supply of rice is perfectly elastic, then**

a. As people's incomes rise, the quantity of rice sup- plied decreases.

b. As the price of corn falls, the quantity of rice demanded decreases.

c. In the long run, a large rise in the price of rice causes no change in the quantity of rice supplied.

d. In the long run, an increase in the demand for rice leaves the price of rice unchanged.

"ECONOMICS 1"

Questions on:

Markets in Action

Markets in action

True or false:

1. In an unregulated housing market, higher rents increase the quantity of housing supplied
2. With a rent ceiling set below the equilibrium rent, there is no way to allocate apartments among potential renters
3. Suppose that price controls are holding the price of gasoline below its equilibrium level. When controls are abolished and the price rises, the amount of gasoline purchased by consumers will decrease.
4. A rent ceiling below the equilibrium rent increases economic efficiency and decreases the dead weight loss because more people can afford apartments.
5. In an unregulated labor market, a decrease in the demand for low-skilled labor leads to a fall in the wage rate for low-skilled workers.
6. If the minimum wage is above the equilibrium wage, raising the minimum wage decreases the number of workers employed.
7. Most economists believe that raising the minimum wage has no effect on unemployment
8. Levying a tax on a product shifts its supply curve so that the supply curve with the tax lies below the supply curve without the tax.
9. Buyers always pay a larger amount of a sales tax than do sellers.
10. If the demand for Exxon gasoline is perfectly elastic, imposing a tax on Exxon gasoline raises its price.
11. The more elastic the demand for a product, the larger is the amount of a sales tax paid by consumers.
12. Imposing penalties on sellers of an illegal product raises the price of the illegal product.

Multiple Choice Questions:

1. The opportunity cost of a good includes the market price as well as

a. The regulated price

b. The marginal benefit of the good

c. The marginal cost of the good

d. The cost of time spent acquiring the good

2. A price ceiling ______________________________.

a. is necessary to maintain market equilibrium
b. occurs in housing markets only
c. makes it illegal to charge a higher price than specified
d. is more effective when it is higher

3. **A rent ceiling ________________________________**
   a. set below the equilibrium price is effective
   b. does not change the market price
   c. always increases the quantity of rental units supplied
   d. set above equilibrium price is effective

4. **In an unregulated market, which of the following will <u>NOT</u> happen as result of the sudden destruction of a large proportion of the stock of housing?**
   a. Higher rents
   b. A persisting shortage of rental housing
   c. More basement apartments offered for rent
   d. More families sharing living quarters

5. **If the government sets a price ceiling on pizza that is below the equilibrium price of a pizza, then**
   a. There is a shortage of pizza.
   b. There is a surplus of pizza.
   c. Existing firms will expand their production to meet the increased quantity demanded.
   d. New firms will enter the market to meet the in- crease in the quantity demanded.

6. **Which of the following is an example of a black market?**
   a. A market where legal transactions take place at prices lower than a government imposed price ceiling.
   b. A market where illegal transactions take place at prices higher than a government imposed price ceiling.
   c. A legal market where buyers and sellers search for each other.
   d. An illegal market in which the lights are not turned on

TABLE 6.1Multiple Choice Questions 8, 9, 10, 11,12

Price (dollars per pound	Quantity demanded (tons per year)	Quantity supplied (tons per year)
$1.10	24	30
1.00	28	28
0.90	32	26
0.80	36	24
0.70	40	22

7. **What is the equilibrium price of an apple?**
   a. a. $1.10 per pound
   b. b. $1.00 per pound
   c. c. $0.80 per pound
   d. $0.60 per pound

8. **What is the equilibrium quantity of apples?**
   a. 24 tons
   b. 28 tons
   c. 32 tons
   d. . 36 tons

9. **The government imposes a price ceiling of 80¢ per Pound. At this price, how many apples are supplied?**
    a. 24 tons
    b. 28 tons
    c. 32 tons
    d. 36 tons
10. **At the ceiling price of 80¢ per pound, how many apples are consumed?**
    a. 24 tons
    b. 28 tons
    c. 32 tons
    d. 36 tons
11. **At the ceiling price of 80¢ per pound of apples, what is the shortage of apples?**
    a. 0 tons
    b. 12 tons
    c. 24 tons
    d. 36 tons
13. **A price ceiling can cause an excess demand which leads to an illegal market in which the price exceeds the legally imposed price ceiling that is called a**
    a. Free trade zone.
    b. Regulated market.
    c. Black market.
    d. Free market
14. **A minimum wage is an example of a**
    a. Subsidy.
    b. Price floor.
    c. Price ceiling.
    d. Tax
15. **Minimum wage legislation leads to**
    a. Efficiency.
    b. Economic growth.
    c. Capital accumulation.
    d. Unemployment.
16. **In a labor market without a minimum wage, the demand for labor decreases. As a result, the wage rate and as time passes.**
    a. falls; the demand for labor increases
    b. rises; the supply of labor increases
    c. falls; the supply of labor decreases
    d. falls; neither the supply of nor demand for labor changes.
17. **Suppose the government imposes a minimum wage *above* the equilibrium wage rate for low-skilled workers. When will more workers be employed?**
    a. When the minimum wage is in effect.
    b. When the minimum wage is NOT in effect.
    c. Employment is the same regardless of the presence or absence of this minimum wage.
    d. The question cannot be answered without knowledge of the actual amounts of the mini- mum wage and equilibrium wage rate.

18. **The division of a tax falls heaviest on consumers when**

a. Demand is perfectly elastic.
b. Demand is inelastic but not perfectly inelastic.
c. Demand is perfectly inelastic.
d. Supply is perfectly inelastic.

19. **Suppose that the government wants to discourage the use of cigarettes. If it imposes a tax on cigarettes, the equilibrium quantity decreases the most when the elasticity of demand equals**

a. 2.00.
b. 1.00.
c. 0.50.
d. d. 0.

20. **The more elastic the supply, the**

a. More likely the government is to tax the product.
b. More likely the government is to impose a price ceiling.
c. Smaller the amount of any tax imposed on the product paid by the suppliers.
d. more elastic is the demand.

21. **If the government wants to increase tax revenues, it should tax goods and services that have a(n)**

a. Unitary elasticity of supply.
b. Low elasticity of demand.
c. High elasticity of demand.
d. unitary elasticity of demand

22. If either the demand or supply are perfectly inelastic, a tax results in

a. A larger quantity traded and a smaller deadweight loss.
b. A smaller quantity traded and a smaller deadweight loss.
c. No change in quantity and no deadweight loss.
d. A smaller quantity traded and a larger deadweight loss.

23. Making a good or service illegal will result in

a. Higher prices and lower quantities traded.
b. Lower prices and higher quantities traded.
c. Higher prices and higher quantities traded.
d. Lower prices and lower quantities traded.

24. An alternative to making a good or service illegal that would have the same effect on price and quantity traded is a

a. Subsidy.
b. Price ceiling.
c. Tax.

25. Governments intervene in agricultural markets in all of the following ways except

a. Setting price floors.
b. Holding inventories.
c. Setting production limits.
d. Setting price ceilings**.**

26. **By imposing sanctions on buyers of an illegal good, the government shifts the good's**

   a. Demand curve rightward.
   b. Demand curve leftward.
   c. Supply curve leftward.
   d. Supply curve rightward

27. **If the government wants to discourage consumption of a good, it can**

   a. Impose penalties on buyers of the good.
   b. Impose penalties on sellers of the good.
   c. Tax the product.
   e. do all of the above because all the policies serve to decrease consumption of the good.

“ECONOMICS 1”

Questions on:

Utility and Demand

Possibilities, Preferences, and Choices

True or False:

1. A budget line shows the different combinations of goods and services a consumer can afford to buy.
2. Utility measures a consumer's level of satisfaction.
3. As more of a good is consumed, diminishing marginal utility means that the total utility from the good diminishes.
4. A household is maximizing its utility if the marginal utility per dollar spent is equal for all goods and the household spends all its income.
5. If the marginal utility per dollar spent on pizza exceeds the marginal utility per dollar spent on tacos, total utility rises by increasing consumption of pizza and decreasing consumption of tacos.
6. The budget line has a negative slope and is linear.
7. An increase in income shifts the budget line outward and makes it steeper.
8. A person is indifferent between any combination of goods on a particular indifference curve.
9. Indifference curves farther from the origin are preferred to those closer to the origin.
10. The marginal rate of substitution falls when moving upward along an indifference curve.

Multiple choice:

1. As more of a good is consumed,

a. both the marginal utility and total utility from the good rise.
b. the marginal utility from the good rises and the total utility falls.
c. the marginal utility from the good falls and the total utility rises.
d. both the marginal utility and total utility from the good fall.

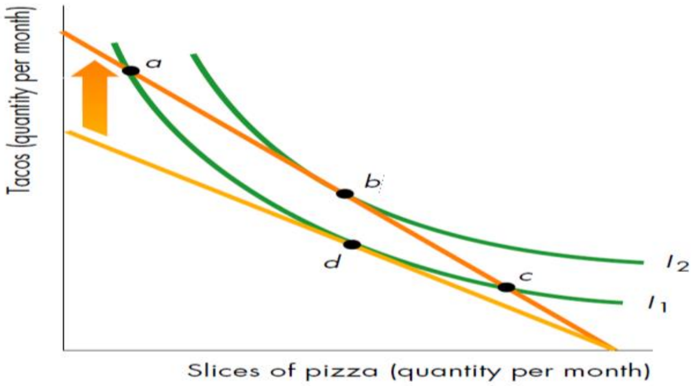
2. Andrew finds that the marginal utility from a BMW exceeds that from a slice of pizza. Andrew is spending all of his income. These conditions mean that Andrew

a. is not maximizing his utility.
b. is maximizing his utility.
c. must increase his income to maximize his utility.
d. might be maximizing his utility, but we cannot tell without more information.

3. As a consumer moves rightward along an indifference curve, the

a. consumer remains indifferent among the different combinations of goods.
b. consumer generally prefers the combinations of goods farther rightward along the indifference curve.
c. income required to buy the combinations of the goods always increases.
d. relative price of both goods falls.

using the following graph answer the following questions (4-



4. The change in the budget line is the result of a(n)

a. fall in the price of a slice of pizza.
b. fall in the price of a taco.
c. increase in income.
d. None of the above.

5. With the change in the budget line, the consumer's real income measured in units of tacos

a. definitely increased.
b. definitely decreased.
c. did not change.
d. might have changed, but it is impossible to tell from the figure.

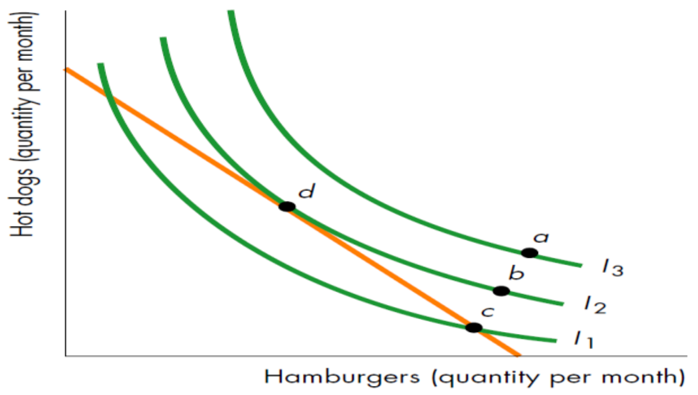
6. The new consumer equilibrium is at point

a. *a*.
b. *b*.
c. *c*.
d. *d*.

7. Which of the following is true when the consumer is at the best affordable point?

a. The point is on the budget line and highest attainable indifference curve.
b. The slope of the budget line equals the slope of the indifference curve.
c. The MRS equals the relative price.
d. All of the above are true at the best affordable point.

Use the following figure to answer (8&9)



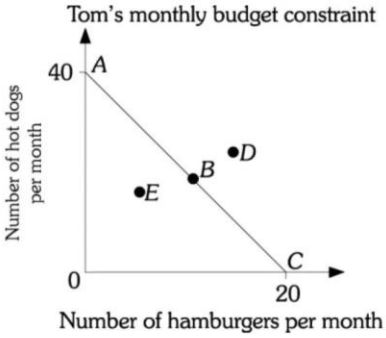
8. Which of the following statements about the previous Figure is correct?

a. Point *a* is preferred to point *d*, but *a* is not affordable.
b. The consumer is indifferent between points *d* and *c*, but *c* is more affordable.
c. Point *b* is preferred to point *d* , but *b* is not affordable.
d. Both points *a* and *d* cost the same, but *a* is preferred to *d*.

9. What is the best affordable point of consumption?

a. *a*
b. *b*
c. *c*
d. *d*

use the following graph to answer the questions (10 - 15):



10. Refer to the previous Figure. Assume Tom is on budget constraint *AC* and the price of a hamburger is
$4.00. Tom′s monthly income is
  a. $20
  b. $60
  c. $80
  d. $100

11. Assume Tom is on budget constraint *AC* and the price of a hot dog is $2.00. Tom′s monthly income is
  a. $40
  b. $60
  c. $80
  d. $100

12. Refer to Figure 6.1. The slope of budget constraint *A*C is
  a. -5.0
  b. -2.0
  c. -0.5
  d. indeterminate from this information because prices are not given

13. Assume Tom′s budget constraint is *AC*. He does not spend his entire income at point
  a. *A*
  b. *B*
  c. *D*
  d. E

14. Assume Tom′s budget constraint is *AC*. Given his current monthly income he cannot purchase the bundle of goods at point
  a. *A*
  b. *B*
  c. *D*
  d. E

15. Assume Tom′s budget constraint is *AC*. At which point does Tom consume only hot dogs?
  a. *A*
  b. *B*
  c. *D*
  d. E

use the following table to answer the questions (16- 19):

	Marginal utility	
Quantity	**Law books**	**Paper pads**
1	12	16
2	10	12
3	8	8
4	6	4
5	4	2

16. Amy spends her entire income of $10 on law books and yellow paper pads. Law books cost $2 and paper pads cost $4. The marginal utility of each good is given in the previous table If Amy is maximizing her utility, how many yellow paper pads does she buy?

a. 0
b. 1
c. 2
d. 3

17. Amy's total utility at her consumer equilibrium is

a. 82
b. 48
c. 46
d. 40

18. Amy's income rises to $16. She continues to buy only law books and yellow paper pads and she continues to maximize her utility. How many yellow paper pads does she buy after her income increases?

a. 0
b. 1
c. 2
d. 3

19. After Amy's income rises to $16, what is her total utility?

a. 82
b. 64
c. 40
d. 36

"ECONOMICS 1"

Questions on:

Output and Costs

Output and costs

True or false:

1. The short run is the period of time over which only one resource is variable.
2. If the marginal product of another worker exceeds the marginal product of the previous worker hired, the firm is experiencing economies of scale.
3.The law of diminishing returns implies that the marginal product of an input eventually falls as more of the input is used.
4. If the marginal product of labor exceeds the average product of labor, the average product of labor rises when more workers are hired.
5. Total costs first fall and then, as diminishing returns sets in, total costs rise as the firm expands its output.
6. Total variable costs are always greater than total fixed costs.
7. The average total cost curve, like the average product of labor curve, has an upside-down U-shape.
8. The ATC curve always passes through the minimum point of the MC curve.
9. In the long run, all costs are variable costs and no costs are fixed.
10. Increasing returns to scale occur when an increase in the number of workers employed increases total output.
11. when the long-run average cost (LRAC) curve slopes upward, the firm is experiencing economies of scale.
12. Marginal cost is always greater than average total cost.
13. Marginal cost equals total cost divided by total output.

Multiple Choice Questions:

1. In the long run,

a. only the amount of capital the firm uses is fixed.
b. all inputs are variable.
c. all inputs are fixed.
d. a firm must experience diseconomies of scale.

2. Diminishing returns occurs when

a. all inputs are increased, output decreases.
b. all inputs are increased, output increases by a smaller proportion.
c. a variable input is increased, output decreases.
d. a variable unit is increased, its marginal product falls.

3. The marginal product of labor equals the average product of labor when

a. the average product of labor is at its maximum.
b. the average product of labor is at its minimum.
c. the marginal product of labor is at its maximum.
d. None of the above answers are correct because the marginal product of labor never equals the average product of labor.

4. When the marginal product of labor curve is below the average product of labor curve,

a. the average product of labor curve has a positive slope.
b. the average product of labor curve has a negative slope.
c. the total product curve has a negative slope.
d. the firm experiences diseconomies of scale.

Use the following table for the next 3 questions:

Output	Total variable cost	Total cost
3	$15	$21
4	18	24

5. The marginal cost of producing the fourth unit is

a. $6.
b. $5.
c. $3.
d. $2.

6. The average total cost of the fourth unit is

a. $6.
b. $5.
c. $3.
d. $2.

7. The average fixed cost of the third unit is

a. $6.
b. $5.
c. $3.
d. $2.

8. If the average total cost (ATC) curve slopes downward, then at that level of output the marginal cost (MC) curve must be

a. sloping upward.
b. sloping downward.
c. above the ATC curve.
d. below the ATC curve.

9. The cost of a variable input, such as the wage paid to workers, rises. This change shifts the

a. total fixed cost curve upward.
b. marginal product of labor curve downward.
c. average variable cost curve upward.
d. marginal product of labor curve upward.

10. constant returns to scale means that as all inputs are increased,

a. total output remains constant.
b. average total cost rises.
c. average total cost rises at the same rate as do the inputs.
d. total output increases in the same proportion as do the inputs.

11. A farmer discovers that the total cost of growing 50 acres of eggplant is $50,000 and that the total cost of growing 51 acres of eggplant is $52,000. The marginal cost of the 51st acre of eggplant is

a. $52,000.
b. $50,000.
c. $2,000.
d. $1,000.

12. Over the range of output where the MP curve slopes upward, the

a. *MC* curve slopes downward.
b. *AFC* curve slopes upward.
c. firm is experiencing economies of scale.
d. total cost curve slopes downward.

13. A technological advance

a. shifts the firm's total product curve upward.
b. does not shift the firm's total product curve.
c. shifts the firm's total product curve downward.
d. cannot occur without raising the firm's average total costs and hence shifts the average total cost curve upward.

14. When a firm is experiencing economies of scale,

a. the MP curve slopes upward.
b. the *LRAC* curve slopes downward.
c. diminishing returns to labor have been suspended.
d. the *MC* curve slopes downward.

15. The *LRAC* curve

a. equals the minimum points on all the short-run *ATC* curves.
b. equals the lowest possible marginal cost of producing the different levels of output.
c. equals the lowest attainable average total cost for all levels of output when all inputs can be varied.
d. generally lies above the short-run *ATC* curves.

Using the following graph answer the following questions:

labor	output
0	0
1	100
2	300
3	450
4	560
5	630
6	660

a) Calculate Ap & Mp?
b) If the cost of the first worker is zero per month. Total fixed costs is 4000 per month. Calculate TVC and TC.
c) Calculate other costs; The average total costs, Average variable cost and Marginal cost.

"ECONOMICS 1"

Questions on:

Perfect Competition

Perfect competition

True or False:

1. In a perfectly competitive industry many firms produce very similar but slightly different products
2. The minimum efficient scale of a firm is the smallest level of output at which the long-run average total cost is at its minimum.
3. In a perfectly competitive industry, no single firm can significantly affect the price of the good.
4. The market demand curve in a perfectly competitive industry is horizontal.
5. A perfectly competitive firm must decide what price to charge for its goods.
6. If it does not shut down, to maximize its profit a perfectly competitive firm produces the level of output that sets $MR = MC$.
7. If $P > ATC$, the firm is incurring an economic loss.
8. If the price is below a firm's minimum ATC, it immediately shuts down.
9. A perfectly competitive firm's supply curve shows the quantities of output supplied at alternative prices as long as the firm earns an economic profit.
10. A perfectly competitive firm's supply curve is its ATC curve.
11. A perfectly competitive firm can earn an economic profit, a normal profit, or incur an economic loss in the short run.
12. A perfectly competitive firm can earn an economic profit, a normal profit, or incur an economic loss in the long run.
13. Firms exit an industry whenever they cannot earn an economic profit.
14. A firm making zero economic profit makes no profit at all.
15. In the long run, a perfectly competitive firm produces at the minimum $LRAC$.
16. In the short run, a permanent increase in demand results in firms earning an economic profit.
17. In the long run, a permanent increase in demand results in firms earning an economic profit
18. In a perfectly competitive industry with external diseconomies, a change in demand always results in a higher price.
19. New technology raises firms' costs and so causes all firms to incur an economic loss in the short run.
20. Efficient use of resource occurs when making someone better off must make someone else worse off.
21. The total gains from trade equal the sum of consumer surplus plus producer surplus.
22. Perfect competition always results in an efficient use of resources

Multiple Choices:

1. **Perfect competition is an industry with**
   a. A few firms producing identical goods.
   b. Many firms producing goods that differ somewhat.
   c. A few firms producing goods that differ somewhat in quality.
   d. Many firms producing identical goods.

2. **Which of the following is <u>NOT</u> a characteristic of a perfectly competitive industry?**
   a. A downward-sloping market demand curve.
   b. A perfectly elastic demand for each firm.
   c. Each firm decides its quantity of output.
   d. Each firm produces a good slightly different from that of its competitors

3. **For a perfectly competitive firm, *MR* always equals**
   a. *ATC*.
   b. *P*.
   c. *AVC*.
   d. none of the above because *MR* is not always equal to the same thing

4. **In the short run, a perfectly competitive firm can**
   a. earn an economic profit
   b. earn an normal profit
   c. Incur an economic loss.
   d. All of the above answers are possible.

5. **A price taker faces a demand curve that**
   a. Has an elasticity of zero.
   b. Is perfectly elastic.
   c. Is unitary elastic.
   d. Is perfectly inelastic.

6. **The return that a firm's entrepreneur can obtain in the best alternative business is**
   a. External profit.
   b. Economic profit.
   c. Normal profit.
   d. Opportunity cost.

7. **The break-even point is the output level at which**
   a. Average fixed cost equals average variable cost.
   b. Average cost equals average revenue.
   c. Total cost equals total revenue.
   d. Marginal cost equals marginal revenue.

8. **Economic profit is maximized when**
   a. Total revenue equals total cost.
   b. Marginal revenue equals marginal cost.
   c. Marginal revenue is less than marginal cost.
   d. Marginal revenue is greater than marginal cost.

9. **A firm shuts down if price falls below the minimum of**
   a. Average total cost.
   b. Marginal cost.
   c. Average variable cost.
   d. Average fixed cost.

10. **As new firms enter an industry,**
   a. The price rises and the economic profit of each existing firm decreases.
   b. The price rises and the economic profit of each existing firm increases.
   c. The price falls and the economic profit of each existing firm increases.
   d. The price falls and the economic profit of each existing firm decreases.

11. In long-run equilibrium in a competitive industry, each firm earns

a. Economies of scale.
b. Economic profit.
c. External profit.
d. normal profit

12. Factors beyond the control of an individual firm that lower the firm's costs as the industry output increases are

a. External diseconomies.
b. External economies.
c. Internal economies.
d. Internal diseconomies.

13. In the long run in a competitive industry, if demand increases and the industry is a decreasing-cost industry, then the industry supply curve is

a. Horizontal.
b. Downward sloping.
c. U-shaped.
d. upward sloping

14. The gains from trade for producers are measured by

a. Consumer surplus.
b. External costs.
c. External benefits.
d. Producer surplus

15. A perfectly competitive firm is definitely suffering an economic loss when

a. $MR < MC$.
b. $P > ATC$.
c. $P < ATC$.
d. $P > AVC$.

16. Which of the following is necessarily true when a perfectly competitive firm is in short-run equilibrium?

a. MR = MC.
b. P = minimum $LRAC$.
c. $P = ATC$.
d. All of the above are true at short-run equilibrium

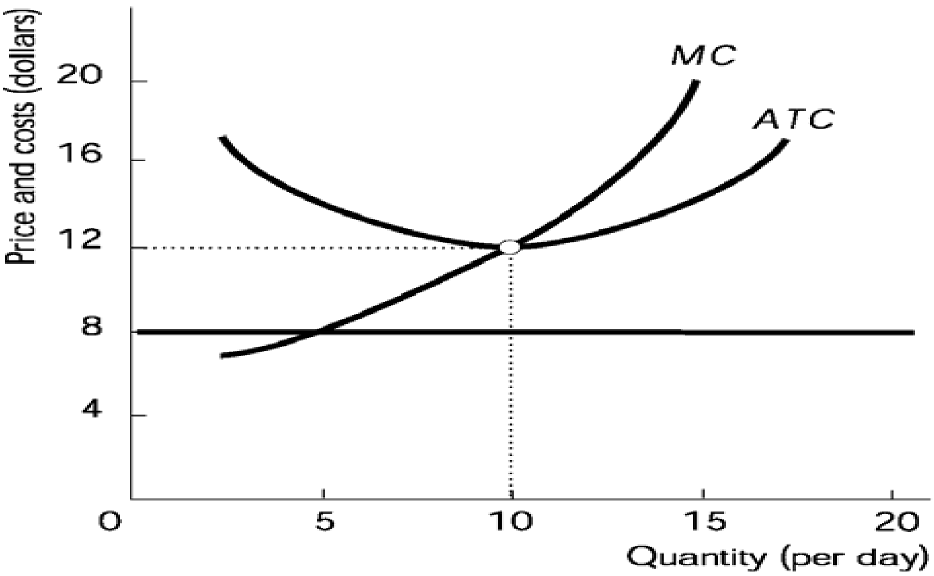
17. In the short run, a perfectly competitive firm can

a. earn an economic profit
b. Earn a normal profit.
c. Incur an economic loss.
d. All of the above answers are possible

20. When will new firms want to enter an industry?

a. When $MR = MC$ for the existing firms in the industry.
b. Any time the price of the good has risen.
c. When the new firms can earn economic profits.
d. When there are external economies

Use the following figure to answer the following questions:



21. **The figure above shows short-run cost curves for a perfectly competitive firm. If the price of the product is $8, in the short run the firm will**

a. Incur an economic loss.

b. Earn an economic profit.

c. Earn a normal profit.

d. None of the above answers is correct because more information is needed to determine the firm's profit or loss

22. **Which of the following is true when a perfectly competitive firm is in long-run equilibrium?**

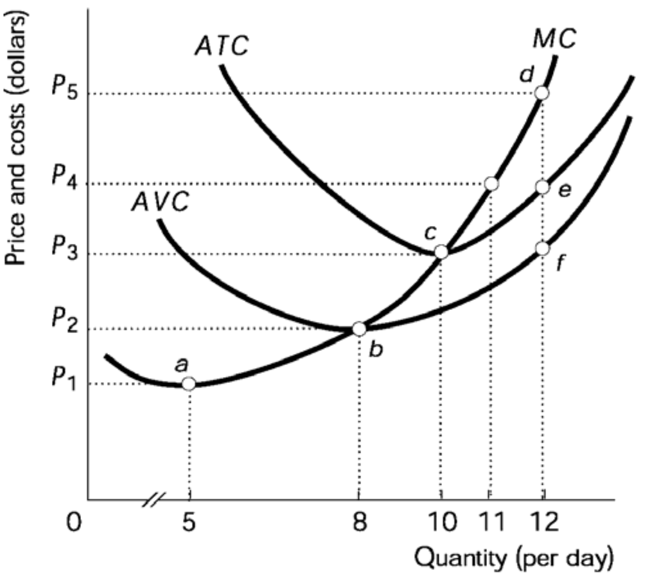
a. *MR = MC*.

b. *P* = minimum *LRAC*.

c. *P = ATC*.

d. All of the above conditions are true

Use the following figure to answer the following questions:



23. **The figure represents a firm in a perfectly competitive market. The firm will shut down if price falls below**

.a) P4 b) P3. c) P1. d) P2.

24. **If demand for a good decreases permanently, in the short run the price**

a. Falls and each firm produce more output to make up for the lower price.
b. Falls and, as long as the price remains above the firms' average variable cost, each firm produces less output.
c. Does not change, but some firms' shutdown because less is demanded.
d. Does not change because each firm produces less output.

25. **In a market with no external economies nor external diseconomies, following a decrease in demand, the price falls more in the________and the quantity de- creases more in the__.**

a. short run; short run
b. short run; long run
c. long run; short run
d. long run; long run