

## TEST BANK BUSINESS ECONOMICS

1. The goal of shareholder wealth maximization implies that managerial decisions maximize this quarter's expected profits of the firm
- 2- profit – seeking corporation have goals, but non-profit corporations have no goals
3. An example of an *agency problem* is an employee who steals merchandise from the place where he works.
4. If you owned and worked in your own card shop, and if you did not pay yourself a wage, then you have ignored an economic cost of running your business.
5. Decisions that do not affect the amount of revenues and costs, but change the timing of receipts and disbursement will not affect the value of the firm.
6. The amount of profits is entirely under the control of the manager.
7. Not-for-profit organizations can't earn profits, so they have no goals.
8. In the long run, all firms earn the same rate of return.
- 9- The goal of shareholder wealth maximization implies that managerial decisions maximize this quarter's profit of the firm.
- 10- Risk analysis in decision making in a firm is a purely objective calculation of expected value, standard deviation and coefficient of variation.
- 11- If the marginal cost of an action exceeds its marginal benefit, then we should not do it.
- 12- It is possible for marginal profits to decline, when average profits are positive.
- 13- When MR is zero, total profits are at a maximum.
- 14- When  $MR > MC$ , a small increase in output would create positive marginal profit.
- 15- If the required rate of return is 10%, and the cash flow next period is L E 100, we should do the project if the initial outlay is L. E. 90.
- 16- If initial investment is L. E. 1000, and the present value of expected future cash flows is L. E. 880, then we should undertake this investment.

- 17- Do only those projects with zero NPV.
- 18- The opportunity cost of any activity is the loss of the opportunity to pursue the attractive alternative given the same time and resources.
- 19- A production possibility curve (PPC) shows how much output of two goods or services that can be produced given the current level of available resources.
- 20- To increase production beyond PPC, it requires to increase only one of the resources available.
- 21- At any point of time, managers can maximize all business objectives.
- 22- Profit can be used as an indicator of efficiency in all markets.
- 23- Total revenue is maximized when the marginal return is zero.
- 24- When total revenue is falling, marginal revenue is negative.
- 25- Economists consider normal profit is included in average cost.
- 26- The shut-down point exists when prices fall below average cost.
- 27- The marginal cost curve is always below average cost curve.
- 28- Supernormal profits are earned when price is set above average total cost.
- 29- Managers have to understand the decision-making of others.
- 30- The marginal benefit curve is the slope of the total benefits curve.
- 31- The slope of the marginal net benefit curve is horizontal where  
 $MB = MC$ .
- 32- The difference in the slope of the marginal benefit curve and the marginal cost curve is maximized at the optimal level of Q.
- 33- The best way to learn economics is to highlight the important material in the text and then continue reading the highlighted material until you understand it.
- 34- The greater the interest rate, the greater the present value of a given future amount.
- 35- When total benefits are falling, marginal benefits are negative.

36- When total costs are rising, marginal costs are negative.

## *Multiple Choice Questions*

1. Which of the following are likely to increase the value of the firm, based on the shareholders wealth-maximization model of the firm?
  - a. The rate of inflation increases substantially.
  - b. A previously nonunion workforce votes to unionize.
  - c. A technological breakthrough allows the firm to reduce its cost of production.
  - d. the government implements strict pollution control requirements.
  
2. The Russian Republic has continued its sale of formerly state-run enterprises. When a steel factory is sold, the value should be based:
  - a. mostly on the past output levels assigned it by central planners.
  - b. primarily on the future earning potential in a competitive economy.
  - c. on the cost of the buildings, adjusted by appropriate depreciation measures.
  - d. in comparing the facilities with equivalent facilities in the United States.
  
3. The Agency Problem shows up in many different situations within a firm. Which is NOT a good example of this problem?
  - a. Firm managers sometime want to relax on the job.
  - b. Firm owners are more able to accept risks than firm managers are.
  - c. Firm managers receive bonuses based on the performance of the firm.
  - d. Employees sometime take items from the store in which they work.
  
4. Executive compensation should:
  - a. be an increasing function of the firm's expenses.
  - b. be an increasing function of the sales revenue received by the firm.
  - c. create incentives so that managers act like owners of the firm.
  - d. avoid making the executives own shares in the company.
  
5. Which of the following is a good candidate for being an *agency problem*?
  - a. time spent on actual business by a salesman on an out-of-state business trip.
  - b. output of a piece rate garment worker.
  - c. the job performance of a parking lot attendant.
  - d. all are equally good candidates.
  
6. To reduce *agency costs*, firms incur costs in all these areas EXCEPT:
  - a. compensation inducements to executives to take actions that shareholders want.
  - b. payment of payroll taxes.

- c. expenditures to monitor the actions of managers, including internal audits.
  - d. bonding expenditures to protect the owners from managerial dishonesty.
7. Economics is traditionally defined as the science that:
- a. shows people how to get rich using the stock market.
  - b. tries to prove how humans differ from other species.
  - c. deals with the allocation of scarce resources among competing ends.
  - d. provides a guide to the successful management of a personal business.
8. In the shareholder wealth maximization model, the value of a firm's stock is equal to the present value of all expected future \_\_\_\_\_ discounted at the stockholders' required rate of return.
- a. cash flows
  - b. revenues
  - c. outlays
  - d. costs
9. The branch of economics that deals with the analysis of the whole economy is called:
- a. shareholder wealth maximization.
  - b. macroeconomics.
  - c. gestalt economics.
  - d. microeconomics.
10. Which of the following will improve shareholder wealth, which is implicit in the formula:
- $$V = \sum_{t=1}^{\infty} [P_t \cdot Q_t - V_t \cdot Q_t - F_t] / (1+k_e)^t$$
- a. larger quantity of sales,  $Q_t$ , assuming price is greater than average variable cost.
  - b. higher discount rate on equity,  $k_e$ .
  - c. higher fixed costs per period,  $F_t$ .
  - d. all of the above.
11. Agency problems between managers and shareholders can be reduced by:
- a. paying managers based on the profitability of the firm.
  - b. requiring managers to own shares of the company.
  - c. paying managers stock options, which improve in value as the stock price rises.

- d. all of the above.
12. Managers tend to be highly concerned about job security. If shareholders do not mind their firm being taken over by merger or acquisition when the price is high, but managers prefer to fight takeovers, what can shareholders do?
- a. offer a Christmas bonus of \$500 every year to management.
  - b. offer free life insurance policies to all employees.
  - c. offer a golden parachute contract if management loses their position in a takeover.
  - d. offer an extra week of paid vacation to employees who have worked at this company for over five years.
13. One important difference between socialist and market economies is:
- a. private incentives are rewarded highly in socialist countries.
  - b. all citizens are always wealthier in market economies than in socialist economies.
  - c. decision making on what to produce is decentralized in socialist economies.
  - d. decision making on what to produce is decentralized in market economies.
14. The saying "there is no such thing as a free lunch" really means that:
- a. the food stamp program costs taxpayers a lot of money.
  - b. because resources are scarce, all services and goods have an economic cost or opportunity cost associated with them.
  - c. because of inflation, products are more expensive than they once were.
  - d. because of cutbacks in the Reagan and Bush administrations, free school lunches are no longer available.
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29- Managerial economics uses \_\_\_\_\_ to help managers solve problems.

- a. formal models
- b. prescribed behavior
- c. quantitative methods
- d. microeconomic theory
- e. all of the above

30- Managerial economics draws upon all of the following EXCEPT:

- a. finance
- b. microeconomics
- c. accounting
- d. marketing
- e. sociology

31- The economic theory of the firm assumes that the primary objective of a firm's owner or owners is to:

- a. behave in a socially conscientious manner
- b. maximize the firm's profit
- c. maximize the firm's total sales
- d. maximize the value of the firm
- e. All of these are primary objectives

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35- Information on the quantities that would be purchased at different prices, holding all other factors constant, in a given time period from a group of firms is shown in a:

- a. firm demand curve
- b. market demand curve
- c. firm demand schedule
- d. market supply schedule
- e. firm supply curve

36- The market demand schedule shows the quantities that would be purchased, holding all other factors constant, from a group of firms during a given time period:

- a. at varying prices
- b. at varying advertising levels
- c. at varying competitors' prices and advertising levels
- d. at varying prices and advertising levels
- e. over different time intervals

37- The demand curve's usual slope implies that consumers:

- a. buy more as the price of a good is increased
- b. buy more as a good is advertised more
- c. buy more at higher average incomes
- d. buy less as the price of a good is increased
- e. have tastes that sometimes change

38- A graphical representation of the demand function is called a:

- a. demand schedule
- b. demand curve
- c. demand function
- d. marginal revenue schedule
- e. marginal revenue curve

39- A market demand curve is likely to shift to the right when:

- a. average income falls
- b. prices fall
- c. prices rise
- d. population increases
- e. new firms enter the market

40- A firm's demand curve is usually:

- a. to the right of the market demand curve
- b. more inelastic than the market demand curve
- c. the same as the market demand curve
- d. drawn holding supply constant
- e. more elastic than the market demand curve

41- If the elasticity of per capita demand with respect to population is zero, then a 10 percent

increase in the population will cause the quantity demanded to:

- a. increase by 25 percent
- b. decrease by 10 percent
- c. remain constant
- d. increase by 10 percent
- e. decrease by 25 percent

42- As we move down a linear demand curve, demand becomes:

- a. more elastic
- b. less elastic at first and then more elastic
- c. steeper
- d. more elastic at first and then less elastic
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51- Marginal revenue can be defined as the:

- a. percent increase in total revenue resulting from a one percent increase in output
- b. increase in total revenue resulting from a one unit increase in output
- c. total revenue divided by output
- d. average revenue multiplied by output
- e. average revenue multiplied by output divided by 4

52- The primary virtue of managerial economics lies in its:

- a--logic.
- b-usefulness.
- c-consistency.
- d- mathematical rigor.

53- Managerial economics cannot be used to identify:

- a-how macroeconomic forces affect the organization.
- b-goals of the organization.
- c-ways to efficiently achieve the organization's goals.
- d-microeconomic consequences of managerial behavior.

54- The value-maximizing organization design does not involve the:

- a-assignment of decision rights.
- b-matching of worker incentives with managerial motives.
- c-development of mechanisms for decision management and control.
- d-establishment of the regulatory environment.

55-Business profit is:

- a-the residual of sales revenue minus the explicit accounting
- b-costs of doing business.
- c-a normal rate of return.
- d-economic profit.
- e-the return on stockholders' equity.

56-In a free market economy, the optimal quality of goods and services is determined by:

- a-workers.
- b-firms.
- c-government.
- d-customers.

57-Managers who seek satisfactory rather than optimal results:

- a-take actions that benefit parties other than stockholders.
- b-are insensitive to social constraints.
- c-are insensitive to self-imposed constraints.
- d-increase allocative efficiency.

58-Nonvalue-maximizing behavior is most common:

- a-in vigorously competitive markets.
- b-when shareholders are poorly informed.
- c-d-when managers own a significant ownership interest.
- in the production of goods rather than services.

59-Government regulation is important because government:

- a-regulation reduces public-sector employment.
- b- produces most of society's services output.
- c- produces most of society's material output.
- d- uses scarce resources.

60-The share of revenues paid to suppliers does not depend upon:

- a-resource scarcity.
- b- input market competition.

- c- output market competition.
- d- relative productivity.

61-Warren Buffett looks for "wonderful businesses" that feature:

- a**-ongoing innovation.
- b- large capital investment.
- c- consistent earnings growth.
- d- complicated business strategies.

62-To maximize value, management must:

- a**-maximize short run revenue.
- b-minimize short run average profit.
- c-maximize long run profit.
- d-maximize short run profit.

63-Value maximization is broader than profit maximization because it considers:

- a-total revenues.
- b-total costs.
- c-real-world constraints.
- d-interest rates.

64-Industry profits can be increased by constraints on:

- a**-natural resources.
- b-imports.
- c-skilled labor.
- d-worker health and safety.

65-Managers display less than optimal behavior if they seek:

- a**-to maximize leisure.
- b-to maximize community well-being.
- c-to maximize employee welfare.
- d-an industry-average profit rate.

66-Unfriendly takeovers have the greatest potential to enhance the market price of companies whose managers:

- a**-maximize short-run profits.
- b-maximize the value of the firm.
- c-satisfice.
- d-maximize long-run profits.

67-Value maximization theory fails to address the problem of:

- a-risk.
- b-uncertainty.
- c-sluggish growth.
- d-self-serving management

68Constrained optimization techniques are not designed to deal with the problem of:

- a-self-serving management.
- b-contractual requirements.
- c-scarce investment funds.
- d-limited availability of essential inputs.

69--Economic profit equals:

- a-normal profits plus opportunity costs.
- b-business profits minus implicit costs.
- c-business profits plus implicit costs.
- d-normal profits minus opportunity costs.

70-The return to owner-provided inputs is an:

- a-implicit cost.
- b-economic rent.
- c-entrepreneurial profit.
- d-explicit cost.

71--To be useful, the theory of the firm must:

- a-refrain from abstraction.
- b-only consider quantitative factors.
- c-accurately predict real-world phenomena.
- d-rely upon realistic assumptions.

72--The value of a firm is equal to:

- a-the present value of tangible assets.
- b-the present value of all future revenues
- c-the present value of all future cash flows.
- d-current revenues less current costs.

73-The value of the firm decreases with a decrease in:

- a-total revenue.
- b-the discount rate.



- c-the cost of capital.
- d-total cost.

74-Direct regulation of business has the potential to yield economic benefits to society when:

- a-barriers to entry are absent.
- b-here are no good substitutes for a product.
- c-many firms serve a given market.
- d-smaller firms are most efficient.

75-Monopoly exploitation is reduced by regulation that:

- a-enhances product-market competition.
- b-increases the bargaining power of workers.
- c-increases the bargaining power of employers.
- d-restricts output.

76- Net cash flows (NCF) from investment (A) will be, 100, 100, 100 for the first three years. NCF for investment (B) will be 80, 100, 120 for the first three years. The present values will be :-

- a- The same regardless of the discount rate used.
- b- Greater for investment (B) if the discount rate is positive.
- c- Greater for investment A if the discount rate is positive.
- d- Greater if the NFC s were greater.

77- A project to reduce breakage of products has the following probability distribution with related value of each outcome:

Description	Probability	Outcome
Failure	0.20	-10
Success	0.80	5

Calculate the expected value of the project, the answer is:-

- a- 0
- b- 1
- c- 3
- d- 4

78- Which of the following are likely to increase the value of the firm based on shareholders wealth maximization model of the firm:-

- a- The rate of inflation increases substantially.
  - b- A previously nonunion work force votes to unionize.
  - c- A technological breakthrough allows the firm to reduce its costs.
  - d- The government implements strict pollution control requirement.
- 79- During the process of transformation from public sector to private sector, the value of the sale of the formerly state-owned enterprises should be based on:-
- a- Mostly on the past output levels assigned it by central planner.
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- 80- In the shareholder wealth maximization model, the value of a firm's stock equal to the present value of all expected future ..... discounted at the shareholder's required rate of return:-
- a- cash flows. b- revenues. c- outlays. d-costs.
- 81- Agency problems between managers and shareholders can be reduced by :-
- a- paying managers based on the profitability of the firm.
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  - d- all of the above e- none of the above.
- 82- A change of in the level of an economic activity is desirable and should be undertaken as the marginal benefits exceed ..... The:-
- a- marginal returns. b- total costs.
  - c- marginal cost. d- average cost.
- 83- The level of the economic activity should be increased to the point where the ..... is zero:-

- a- marginal cost.
- b- average cost.
- c- total cost.
- d- marginal profit.

84- In general, as firms leave an industry:

- a- accounting profits fall.
- b- economic profits increase.
- c- economic profits decline.
- d- prices fall.

85- Scarce resources are ultimately allocated toward the production of goods most wanted by society because of the:

- a- goal of firms to maximize profits.
- b- fact that they are most efficiently utilized in these areas.
- c- demand of consumers for inexpensive goods and services.
- d- benevolence of managers of firms.

86- The opportunity cost of receiving ten dollars in the future as opposed to getting that ten dollars today is:

- a- forgone interest that could be earned if you had the money today.
- b- the value of the goods and services that money can purchase.
- c- the relative value of that money in regard to total income.
- d- the level of wealth for each individual and the effect an additional ten dollars will have on wealth.

87- What is the present value of receiving ten dollars one year from now, given that the interest rate is 5 percent?

- a- \$ 9.50
- b- \$ 10.05
- c- \$ 9.52
- d- \$ 9.77

88- If you put \$1,000 in a savings account at an interest rate of 7%, how much money will you have in one year?

- a- \$1.007
- b- \$1.070
- c- \$934.58
- d- \$930

84- If the interest rate is 7%, the present value of \$1,000 received 1 year from now would be:

- a- \$1,007
- b-\$1,070
- c-\$934.58
- d- \$930

- 89- A firm will have constant profits of \$10 per year at the end of each year of the next two years and zero profits thereafter. If the interest rate is six percent, what is the value of the firm?
- a- \$18.33                      b- \$20.00                      c- \$40.00                      d- \$34.65
- 90- Suppose the interest rate is five percent, the expected growth rate of the firm is two percent, and the firm is expected to continue forever. If current profits are \$100, what is the value of the firm on the ex-dividend date?
- a- \$3,100                      b- \$3,000                      c- \$2,650                      d- \$3,400
- 91- To maximize net benefits, a manager should continue to increase the managerial control variable until:
- a- total benefits equal total cost.                      b- net benefits are zero.  
c- marginal benefits equal marginal cost.  
d- average cost equals average benefits.
- 92- Economic profits play an important role in market economy because:
- a- they signal where resources are most highly valued.  
b- they are used to pay workers.  
c- they are used to pay taxes.  
d- they provide workers an incentive to work hard.
- 93- The present value of \$100 received in seven years, if the interest rate is 5%, is:
- a-  $100/(0.07)^5$                       b-  $100 / (1 + .07)^5$ .  
c-  $100 (1 + .07)^5$                       d- none of the above
- 94- Maximizing total benefits results in maximizing net benefits when:
- a- costs are zero.                      b- costs are rising  
c- costs are rising and then failing.                      d- none of the above.
- 95- Managerial economics:
- a- describe how pay for managers is set.  
b- ensure managers always make good decisions.

- c- help managers make decisions in the face of scarcity.
- d- explain which products consumers will buy.

96- A firm's managers are constrained by:

- a- Consumers
- b- workers
- c- governmental
- d- suppliers
- e- all of the above
- f- non of them

97- Accounting profits are:

- a- total revenue minus total cost
- b- total cost minus total revenue.
- c- marginal revenue minus total cost.
- d- total revenue minus marginal cost.

98- Economic profits are:

- a- total revenue minus total cost
- b- marginal revenue minus marginal cost.
- c- total revenue minus total opportunity cost.
- d- total profits of the economy as a whole.

99- Which of the following is an implicit cost to a firm that produces a good or service?

- a- Labor costs
- b- Costs of operating production machinery
- c- Foregone profits of producing a different good or service.
- e- Costs of renting or buying land for a production site.

100- Which of the following is an implicit cost of going to college?

- a- Tuition
- b- Cost of books and supplies
- c- Room and board
- d- Foregone wages

101- The primary inducement for new firms to enter an industry is:

- a- increased technology
- b- availability of labor
- c- low capital costs
- e- presence of economic profits.

102- As more firms enter an industry

- a- accounting profits increase.
- b- economic profits decrease.
- c- prices rise.
- d- None of the statements associated with the question are correct.

103- A farm must decide whether or not to purchase a new tractor. The tractor will reduce costs by \$2,000 in the first year, \$2,500 in the second, and \$3,000 in the third and final year of usefulness. The tractor costs \$9,000 today, while the above cost savings will be realized at the end of each year. If the interest rate is 7 percent, what is the net present value of purchasing the tractor?

- a- \$6,764
- b- \$9,362
- c- \$18,362
- d- None of the statements associated with this question are correct.

104- A firm will maximize the present value of future profits by maximizing current profits when the:

- a- growth rate in profits is constant.
- b- growth rate in profits is larger than the interest rate.
- c- interest rate is larger than the growth rate in profits and both are constant.
- d- growth rate and interest rate are constant and equal.

105- To maximize profits, a firm should continue to increase production of a good until:

- a- total revenue equals total cost.
- b- profits are zero
- c- marginal revenue equals marginal cost.
- d- average cost equals average revenue.

106- Given the cost function  $C(Y) = 6 Y^2$ , what is the marginal cost?

- a-  $6Y$
- b-  $Y^2$
- c-  $3 Y$
- d-  $12 Y$

107- Managerial economics:

- a- has little to say about day-to-day decisions.
- b- Is valuable to the coordinator of a shelter for the homeless

- c- Is not relevant for managers of not-for-profit groups.
  - d- Is the study of how to get rich in the stock market.
- 108- Basic principles that comprise good management include:
- a- identifying goals and constraints.
  - b- Recognizing the nature and importance of profits.
  - c- Understanding incentives.
  - d- All of these statements associated with this question are correct.
- 109- Which of the following is the main goal of a continuing company?
- a- To maximize the value of the firm
  - b- To minimize costs.
  - c- To improve product quality
- 110- What is the main role of economic profits?
- a- To signal where resources are most highly valued.
  - b- To help firms cover their production costs.
  - c- To help consumers cover their opportunity cost.
  - d- None of the statements associated with this question are correct.
- 111- To an economist, maximize profit is:
- a. maximizing the value of the firm.
  - b. maximizing the current year's profits.
  - c. minimizing the permanent total costs.
  - d. minimizing the future risks.
- 112- The value of the firm is the:
- a- current value of profits.
  - b- present discounted value of the future profit.
  - c- average value of all future profit.
  - d- total value of all future profits.
- 113- New firms have incentive to enter an industry when there is (are):

- a- new production technologies.
- b- positive economic profits.
- c- an abundance of labor.
- d- high capital costs.

114- The opportunity cost of an action is the:

- a- monetary payment the action required.
- b- value of the most highly valued alternative action given up.
- c- cost of all alternative actions that could have been taken.
- d- None of the statements associated with this question are correct.

115-A project to reduce breakage of products has the following probability distribution with related value of each outcome :

Description	probability	outcome
Failure	0.2	- 1.0
Success	0.8	5

The expected value of the project will be :-

- a- 0
- b – 1
- c – 2
- d – 4

116 - During the process of privatization , the value of the sale of the former state-owned projects should be based upon :-

- a- Mostly on the past output levels assigned by central planner.
- b- Primarily on the future earning potential in a competitive economy.
- c- On the cost of buildings , adjusted by appropriate depreciation measures.
- d- In comparing the facilities with equivalent facilities in developed countries.
- e-

117 – whether a firm stays in business or shuts down depends heavily on the concept of:-

- a – economic profit.
- b - actual profit
- c – market share.
- d – concentration rate.

118 – Economic profit exists wherever :-

- a- a – a firm makes even one pound.
- b- A firm makes more than the competitors.
- c- A firm makes more than the minimum required to maintain the incentive to remain in the industry.
- d- A firm makes enough to that it is required to pay taxes.

119- the return to owner provided inputs is an :-

- a- Implicit cost.
- b- economic rent.



c- entrepreneurial profit.

d- explicit cost.

120- the value of the firm decreases with the decrease in:-

a- Total revenue.

b- the discount rate.

c-the cost of capital .

d – total costs.

121 – the value of the firm is equal to :-

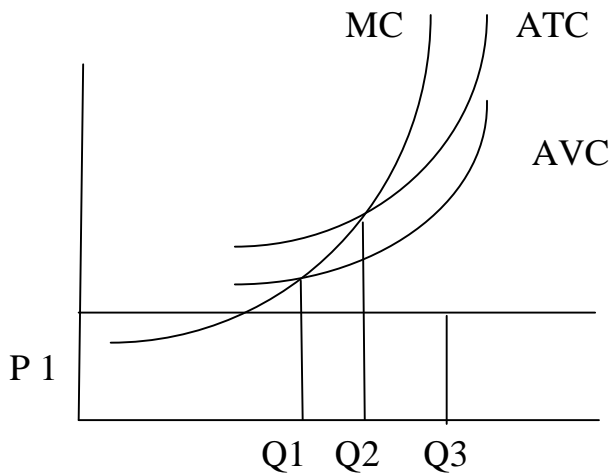
a- the present value of tangible assets.

b- the present value of future revenues.

c- the present value of the future cash flows.

d- current revenues less current costs.

122 – in the following figure , what would a perfect competitor produce:-



a- Q1

b – Q2

c – Q3

d- 0

123-when total required investments are 5000 , unit sale price is 100 and average variable cost is 60 , the quantity of production at break-even point will be :-

a-100

b – 150

c-125

d – 200

124–from the following data ,the units that maximizes average profit and marginal profit are :-

Output Q	0	1	2	3	4	5	6	7
Total profit	-100	50	116	180	220	250	270	280

a- 2 units

b – 3 units

c – 4 units

d -5 units

b-

125-Monopoly exploitation is reduced by regulation that:

- a-enhances product-market competition.
- b-increases the bargaining power of workers.
- c-increases the bargaining power of employers.
- d-restricts output.

126-The value of the firm decreases with a decrease in:

- a- total revenue.
- b-the discount rate.
- c-the cost of capital.
- d-total costs.

127-The value of a firm is equal to:

- a-the present value of tangible assets.
- b-the present value of all future revenues.
- c-the present value of all future cash flows.
- d-current revenues less current costs.

128-To be useful, the theory of the firm must:

- a-refrain from abstraction.
- b-only consider quantitative factors.
- c-accurately predict real-world phenomena.
- d-rely upon realistic assumptions.

129-The return to owner-provided inputs is an:

- a-implicit cost.
- b-economic rent.
- c-entrepreneurial profit.
- d-explicit cost

130-Economic profit equals:

- a-normal profits plus opportunity costs.
- b-business profits minus implicit costs.
- c-business profits plus implicit costs.
- d-normal profits minus opportunity costs

131-Value maximization d-theory fails to address the problem of:

- a-risk.
- b-uncertainty.
- c-sluggish growth.

d-self-serving management.

132-Managers who seek satisfactory rather than optimal results:

- a- take actions that benefit parties other than stockholders.
- b-are insensitive to social constraints.
- c-are insensitive to self-imposed constraints.
- d-increase allocative efficiency.

133-Business profit is:

- a-the residual of sales revenue minus the explicit accounting
- b-costs of doing business.
- c-a normal rate of return.
- d-economic profit.

134-The primary virtue of managerial economics lies in its:

- a- logic.
  - b-usefulness.
  - c-consistency.
  - d-mathematical rigor.
- the return on stockholders' equity.

135-Manual managerial economics cannot be used to identify:

- a- how macroeconomic forces affect the organization.
  - b-goals of the organization.
- ways to efficiently achieve effective the organization's goals.

136-The value-maximizing organization design does not involve the:

- a-assignment of decision rights.
- b-matching of worker incentives with managerial motives.
- c-development of mechanisms for decision management and control.
- d-establishment of the regulatory environment

137- Decision making :-

- a-Giving judgement on a particular issue.
- b-Taking a final decision on a particular issue.
- c-Selecting the best out of several alternative course of action.
- d-Selecting alternative solutions.

138- Managerial economics deals with :-

- a-provide alternative solutions to the problem.

- b-providing solutions to various business and management problems.
- c-providing tools and techniques to find answer for the business and management problems.
- d-analyzing various business and managerial problems of a firm.

139-In case of prestige goods , a fall in price will lead to :-

- a-A very high rise in demand.
- b-Decrease in demand.
- c-A small rise in demand.
- d-Increase in demand.

140-A firm can make use of the sales forecasts made by industry :-

- a-As a powerful tool for formulating its price policy.
- b-As a powerful tool for formulating its inventory policy.
- c-As a powerful tool for formulating its sales policy and sales strategy.
- d-As a powerful tool for formulating its profit policy.

141-Demand forecasting helps in determining the level of output at various periods and avoiding :-

- a-Risks in production .
- b-Unnecessary competition.
- c-under or over production.
- d-cost escalation.

142-In the long run all factors of production : -

- a-become inelastic.                      b-become fixed.
- c-become redundant.                      d-become variable.

142-At point  $P=AR=AC=MC=MR$ , the firm will be earning :-

- a-Reasonable profit.                      b-Subnormal profit.
- c-Only normal profit.                      d-Abnormal profit.

144-The external environment includes all of the following EXCEPT:-

- a-Domestic business environment.
- b-socio-cultural environment.
- c-Political-legal environment.
- d- International economic conditions.

145-Political-legal environment includes :-

- a-Safety and health considerations.

- b-Acceptable standards of business conduct.
- c-Product identification laws .
- d- All of the above.                      e-Non of the above.

146-Corporate Social Responsibility toward the environment includes all of the above EXCEPT:-

- a-Properly disposing of toxic waste.
- b-Green marketing .
- c-Engaging in recycling.
- d-Involves providing quality products and pricing fairly.

147-Accommodative Stance Strategy means :-

- a-A company does as little as possible and may attempt to deny or cover up violation.
- b-A company meets its legal and ethical requirements and also goes further in certain areas.
- c-A company actively seeking to contribute to the well-being of groups and individuals in its social environment.
- d-A company does every-thing required of it legally but no more.

148-Proactive Stance Strategy means :-

- a-A company does as little as possible and may attempt to deny or cover up violation.
- b-A company meets its legal and ethical requirements and also goes further in certain areas.
- c-A company actively seeking to contribute to the well-being of groups and individuals in its social environment
- d-A company does every-thing required of it legally but no more.

149-Defensive Stance Strategy means:-

- a-A company does as little as possible and may attempt to deny or cover up violation.
- b-A company meets its legal and ethical requirements and also goes further in certain areas.
- c-A company actively seeking to contribute to the well-being of groups and individuals in its social environment
- d-A company does every-thing required of it legally but no more.

150-Profit maximizing model is of the views that the success of the firm depends upon :-

a-Sales maximization.  
c-Market share expansion.

b-Profit maximization.  
d-Growth maximization.