



uOttawa

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Faculty of Social Sciences

**Département de science économique**  
**Department of Economics**

**INTRODUCTION TO MICROECONOMICS**  
**ECO 1104A – Spring 2012**

**Practice Exam #3**

1. Which of the following is NOT a characteristic of a perfectly competitive market?
  - a. Firms are price takers.
  - b. Firms have difficulty entering the market.
  - c. There are many sellers in the market.
  - d. Goods offered for sale are largely the same.
  
2. When firms are said to be price takers, it implies that if a firm raises its price,
  - a. buyers will go elsewhere.
  - b. buyers will pay the higher price in the short run.
  - c. competitors will also raise their prices.
  - d. firms in the industry will exercise market power.
  - e. other firms will exit the industry.
  
3. A competitive firm might choose to set its price below the market price, because
  - a. this would result in higher average revenue.
  - b. this would result in higher profits.
  - c. this would result in lower total costs.
  - d. its demand curve is totally inelastic.
  - e. None of the above are correct.
  
4. When a firm in a competitive market receives \$800 in total revenue, it has a marginal revenue of \$20. What is the average revenue, and how many units were sold?
  - a. \$5 and 100
  - b. \$10 and 50
  - c. \$20 and 10
  - d. \$20 and 40
  - e. \$50 and 5

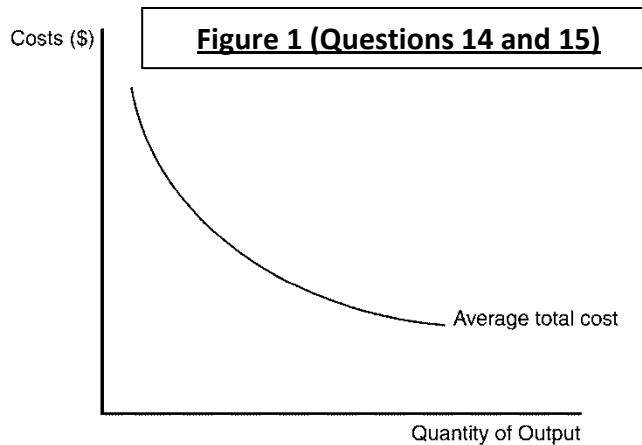
5. Starting from a situation in which a firm in a competitive market produces and sells 500 door knobs for a price of \$10 per doorknob, which of the following events would decrease the firm's average revenue?
  - a. The firm increases its output above 500 doorknobs.
  - b. The firm decreases its output below 500 doorknobs.
  - c. The market price of doorknobs rises above \$10.
  - d. The market price of doorknobs falls below \$10.
  - e. Using the information provided, it is impossible to answer this question.
  
6. Changes in the output of a perfectly competitive firm, without any change in the price of the product, will change the firm's
  - a. total revenue.
  - b. marginal revenue.
  - c. average revenue.
  - d. All of the above are correct.
  
7. As a general rule, when accountants calculate profit they account for explicit costs but usually ignore
  - a. certain outlays of money by the firm.
  - b. implicit costs.
  - c. operating costs.
  - d. Fixed costs.

**Table 1 (Questions 8 and 9)**

<u>Quantity</u>	<u>Total Revenue</u>	<u>Total Cost</u>
<b>0</b>	<b>\$0</b>	<b>\$10</b>
<b>1</b>	<b>9</b>	<b>14</b>
<b>2</b>	<b>18</b>	<b>19</b>
<b>3</b>	<b>27</b>	<b>25</b>
<b>4</b>	<b>36</b>	<b>32</b>
<b>5</b>	<b>45</b>	<b>40</b>
<b>6</b>	<b>54</b>	<b>49</b>
<b>7</b>	<b>63</b>	<b>59</b>
<b>8</b>	<b>72</b>	<b>70</b>
<b>9</b>	<b>81</b>	<b>82</b>

8. If this firm chooses to maximize profit it will choose a level of output where marginal cost is equal to
  - a. 6.
  - b. 7.
  - c. 8.
  - d. 9.
  
9. If the firm finds that its marginal cost is \$11, it should
  - a. increase production to maximize profit.
  - b. increase the price of the product to maximize profit.
  - c. advertise to attract additional buyers to maximize profit.
  - d. None of the above are correct.

10. A profit-maximizing firm in a competitive market is currently producing 100 units of output. It has average revenue of \$10, and its average total cost is \$8. It follows that the firm's
- average total cost curve intersects the marginal cost curve at an output level of less than 100 units.
  - average variable cost curve intersects the marginal cost curve at an output level of less than 100 units.
  - profit is \$200.
  - All of the above are correct.
11. When new firms enter a perfectly competitive market,
- profits of existing firms will fall.
  - entering firms will earn zero profit as soon as they enter.
  - existing firms will see their costs rise.
  - consumers will likely observe increasing prices.
12. Which of the following is an example of a barrier to entry?
- A key resource is owned by a single firm.
  - The costs of production make a single producer more efficient than a large number of producers.
  - The government has given the existing monopoly the exclusive right to produce the good.
- (i) and (ii)
  - (ii) and (iii)
  - (i) only
  - All of the above are correct.
13. Because monopoly firms do not have to compete with other firms, the outcome in a market with a monopoly is often
- not in the best interest of society.
  - one that fails to maximize total economic well-being.
  - inefficient.
  - All of the above are correct.



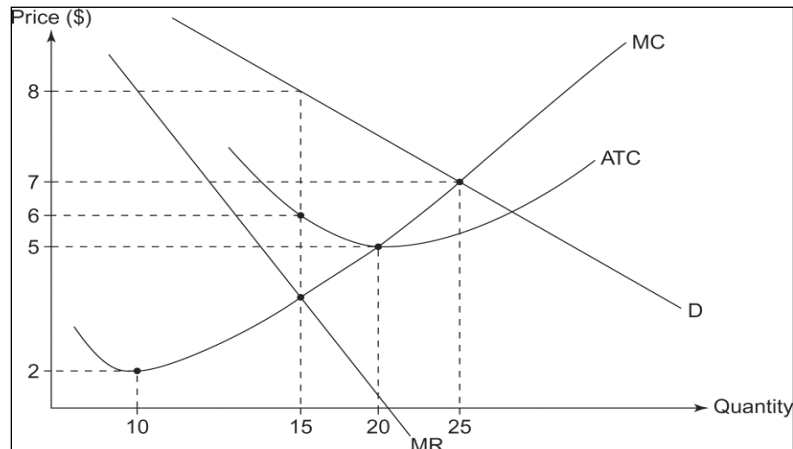
14. The shape of the average total cost curve reveals information about the nature of the barrier to entry that might exist in a monopoly market. Which of the following monopoly types best coincides with the figure?
  - a. ownership of a key resource by a single firm
  - b. a natural monopoly
  - c. a government-created monopoly
  - d. a dynamic monopoly.
  - e. None of the above are correct.
  
15. The shape of the average total cost curve in the figure suggests an opportunity for a profit-maximizing monopolist to take advantage of
  - a. economies of scale.
  - b. diseconomies of scale.
  - c. constant returns to scale.
  - d. increasing marginal cost.
  - e. diminishing marginal product.
  
16. Which of the following scenarios best represents a monopoly situation?
  - a. Bill and Tom work separately from one another but both sell a very rare form of the same diamond. They are the only sellers of this type of diamond in town.
  - b. Tom owns a fishing tackle shop in Miami, Florida, in which he sells the top-of-the-line fishing equipment.
  - c. Bill owns the only grocery store in a small community that lies 200 miles from the nearest city.
  - d. None of the above adequately represents a monopoly.
  
17. When a firm operates under conditions of monopoly, its price is
  - a. not constrained.
  - b. constrained by marginal cost.
  - c. constrained by demand.
  - d. constrained only by its social agenda.
  
18. A monopolist's average revenue is always
  - a. equal to marginal revenue.
  - b. greater than the price of its product.
  - c. equal to the price of its product.
  - d. less than the price of its product.

19. Competitive firms have
  - a. downward-sloping demand curves and they can sell as much output as they desire at the market price.
  - b. downward-sloping demand curves and they can sell only a limited quantity of output at each price.
  - c. horizontal demand curves and they can sell as much output as they desire at the market price.
  - d. horizontal demand curves and they can sell only a limited quantity of output at each price.
20. If a profit-maximizing monopolist faces a downward-sloping market demand curve, its
  - a. average revenue is less than the price of the product.
  - b. average revenue equals the price of the product.
  - c. average revenue is less than marginal revenue.
  - d. marginal revenue is greater than the price of the product.
  - e. marginal revenue is less than the price of the product.
21. Which of the following statements is true?
  - a. The distribution of annual income accurately reflects the distribution of living standards.
  - b. Lifetime incomes are more equally distributed than annual incomes.
  - c. Transitory changes in income generally have a significant impact on a family's standard of living.
  - d. Annual income is more equally distributed than permanent income.
  - e. None of the above are true.
22. Whether or not policymakers should try to make our society more egalitarian is largely a matter of
  - a. economic efficiency.
  - b. political philosophy.
  - c. egalitarian principles.
  - d. enhanced opportunity.
23. The concept of diminishing marginal utility is embodied in the utilitarian rationale for
  - a. trickle-down effects.
  - b. enhancing market efficiency.
  - c. redistributing income.
  - d. maintaining the status quo income distribution.
  - e. crowding out effects.
24. All of the following will occur when government policies are enacted to make the distribution of income more equitable, EXCEPT
  - a. behaviour is altered.
  - b. incentives are distorted.
  - c. total utility is constant.
  - d. the allocation of resources is less efficient.
25. In the parable of the leaky bucket, a fundamental problem with government redistribution programs is identified. As long as the government only has "leaky buckets" at its disposal
  - a. affirmative action programs are doomed to failure.
  - b. it should not try to reach complete equality in income.

- c. full egalitarian policies will always dominate competing policy options.
  - d. equality of economic opportunity is an unattainable goal.
26. When regulating a monopoly, the government should require the monopolist to set price and output where marginal cost equals demand thus achieving optimum social value. a. True; b. Fall
27. If a regulated monopoly is unable to generate profits at the "marginal-cost pricing" regulated level of production,
- a. the regulated monopolist should exit the industry.
  - b. the regulated monopolist should try to minimize losses in the long run.
  - c. it may make sense for the government to subsidize the monopolist.
  - d. the government should always purchase the monopoly.
28. When price is below average variable cost, a firm in a competitive market will
- a. continue to operate as long as average revenue exceeds average variable cost.
  - b. shut down and incur the loss of both variable and fixed costs.
  - c. continue to operate as long as average revenue exceeds marginal cost.
  - d. shut down and incur the loss of fixed costs.
29. The competitive firm chooses to shut down when the price received for the good is
- a. greater than its average variable cost.
  - b. less than its average variable cost.
  - c. less than its average total cost.
  - d. greater than its average total cost.
30. If the cost structure of firms remaining in a market is increased when firms exit the market,
- a. the long-run market supply curve must be upward sloping.
  - b. the long-run market supply curve must be horizontal.
  - c. we can't tell anything about the shape of the long-run market supply curve.
  - d. the long-run market supply curve must be downward sloping.
31. Monopoly pricing prevents some mutually beneficial trades from taking place. these unrealized mutually beneficial trades are \_\_\_\_\_ to society.
- a. a deadweight loss
  - b. a sunk cost
  - c. of little concern
  - d. not considered a cost
32. If a monopolist is able to price discriminate,
- a. consumer surplus is increased.
  - b. deadweight loss is increased.
  - c. the price effect dominates the output effect on monopoly revenue.
  - d. consumer surplus and deadweight losses are transformed into monopoly profits.

33. When a firm in a perfectly competitive market shuts down production,
- market supply increases.
  - the market supply curve shifts right.
  - the market supply curve shifts left.
  - costs of all remaining firms in the market must fall.

**Figure 2 (Question 34)**



34. A profit-maximizing monopolist will enjoy a total profit of
- \$30.
  - \$120.
  - \$90.
  - \$15.
35. A firm will choose to increase production when
- marginal revenue is less than marginal cost.
  - average total cost is less than marginal cost.
  - marginal cost is less than average total cost.
  - marginal cost is less than marginal revenue.
36. If firms in perfectly competitive markets have different cost structures,
- some firms may have accounting losses in the long run.
  - some firms will have economic losses in the long run.
  - some firms may earn economic profits in the long run.
  - all firms will have zero economic profits in the long run.
37. Since natural monopolies have a declining average cost curve, regulating natural monopolies by setting price equal to marginal cost would
- result in a less than optimal total surplus.
  - maximize producer surplus.
  - cause the monopolist to operate at a loss.
  - all of the above

38. When new firms enter a perfectly competitive market,
- entering firms will earn no more than a "normal" rate of return upon entry into the market.
  - profits of incumbent firms must fall.
  - incumbent firms will see their costs rise.
  - consumers will be likely to observe increasing prices.
39. The market demand curve for a monopolist is typically
- downward sloping.
  - horizontal.
  - unitary elastic.
  - perfectly elastic at market price.
40. Patent and copyright laws are major sources of
- resource monopolies.
  - natural monopolies.
  - government-created monopolies.
  - none of the above
41. If all firms in a perfectly competitive market have identical and independent cost structures, and the market is characterized by free entry and exit,
- the long-run supply curve for the market must slope downward.
  - the long-run market supply curve must slope upward.
  - the long-run supply curve for the market must equal the minimum of long-run average cost for each firm.
  - the long-run market supply curve is equal to the sum of marginal cost.
42. Equilibrium, the point at which no firms will enter or exit the market, in a perfectly competitive market occurs when
- price equals marginal cost.
  - firms are operating at their efficient scale.
  - price equals average total cost.
  - price equals average variable cost.
43. The simplest way for a monopoly to arise is for a single firm to own a key factor of production. this is known as a
- natural monopoly.
  - resource monopoly.
  - government-created monopoly.
  - production monopoly.
44. A profit-maximizing perfectly competitive firm is able to sell its product for \$9, and realizes an average total cost of \$10. Its marginal cost curve crosses the marginal revenue curve at an output level of 10 units. What is the total profit earned by this firm?
- \$10
  - \$200
  - \$200
  - none of the above.

## Answer key

<u>Questions</u>	<u>Answers</u>	<u>Questions</u>	<u>Answers</u>
1	B	31	A
2	A	32	D
3	E	33	C
4	D	34	A
5	D	35	D
6	A	36	C
7	B	37	C
8	D	38	B
9	D	39	A
10	D	40	C
11	A	41	C
12	D	42	B
13	D	43	B
14	B	44	A
15	A	45	
16	C	46	
17	C	47	
18	C	48	
19	C	49	
20	E	50	
21	B	51	
22	B	52	
23	C	53	
24	C	54	
25	B	55	
26	FALSE	56	
27	C	57	
28	B	58	
29	B	59	
30	D	60	