

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Which one of the following statements is *true*?
 - A) The maximum total product occurs at minimum marginal product.
 - B) The highest value of average product occurs where average product is greater than marginal product.
 - C) When the average product curve is rising, marginal product is less than average product.
 - D) When the average product curve is falling, marginal product is greater than average product.
 - E) The highest value of average product occurs where average product equals marginal product.

- 2) If *ATC* is falling, then *MC* must be
 - A) below *ATC*.
 - B) falling.
 - C) equal to *ATC*.
 - D) above *ATC*.
 - E) rising.

- 3) A firm in a perfectly competitive industry is maximizing its economic profit by producing 500 units of output. At 500 units of output, which one of the following must be *false*?
 - A) $MR > AVC$
 - B) $MC > ATC$
 - C) $MR < ATC$
 - D) $MC < ATC$
 - E) $MC < AVC$

Use the figure below to answer the following question.

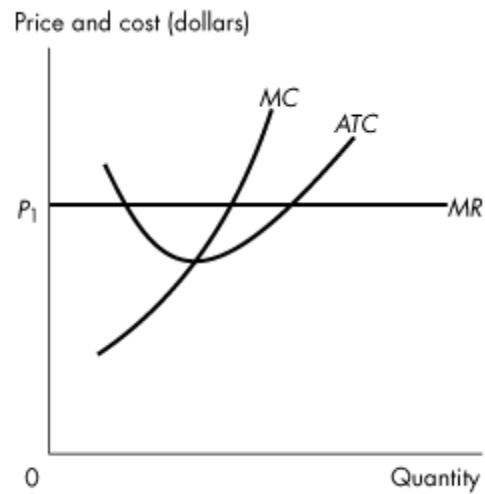


Figure 1

- 4) Refer to Figure 1 which shows the cost curves and marginal revenue curve of a firm in a perfectly competitive industry. In the long run,
- A) market supply will decrease.
 - B) firms that remain in the market will decrease production.
 - C) market demand will increase.
 - D) firms that remain in the market will expand production.
 - E) firms will exit the market.

Use the figure below to answer the following question.

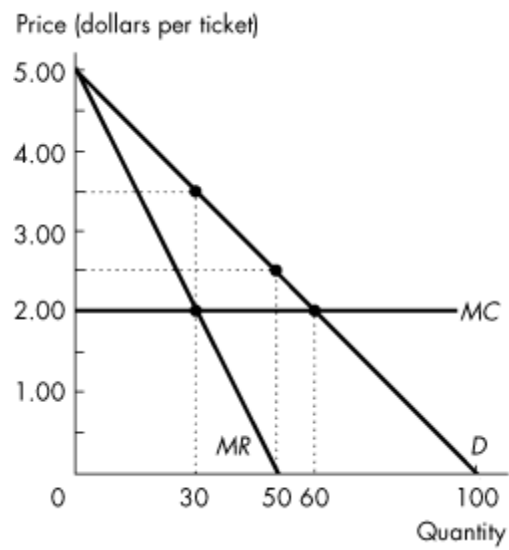


Figure 2

- 5) Refer to Figure 2. Assume this firm is a single-price monopoly. How many tickets does this monopolist sell to maximize economic profit?
- A) 60 tickets
 - B) 100 tickets
 - C) 20 tickets
 - D) 30 tickets
 - E) 50 tickets

Use the figure below to answer the following question.

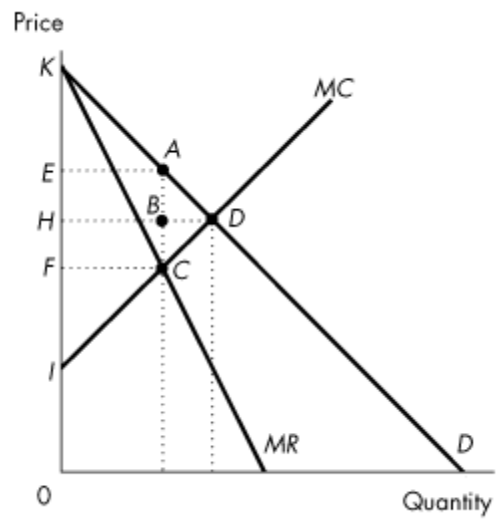


Figure 3

- 6) Consider the cost and revenue curves in Figure 3. If this is a perfect price-discriminating monopoly, what is consumer surplus?
- A) $EABH$
 - B) $EADH$
 - C) KEA
 - D) ABD
 - E) None of the above.

Use the figure below to answer the following question.

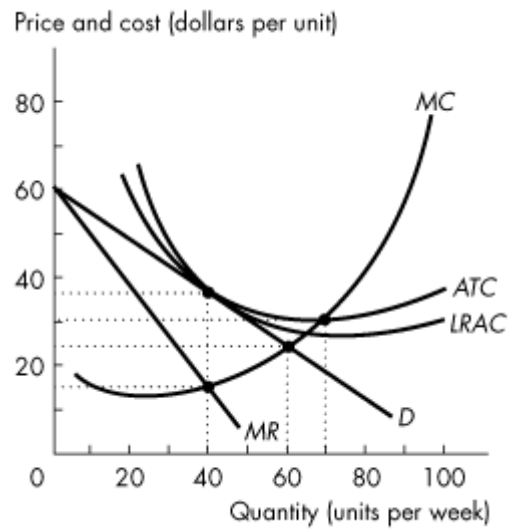


Figure 4

- 7) Refer to Figure 4. This firm
- A) must raise its price to maximize economic profit.
 - B) is making an economic profit.
 - C) will make more economic profit in the long run.
 - D) is incurring an economic loss.
 - E) is in long-run equilibrium.

Use the figure below to answer the following question.

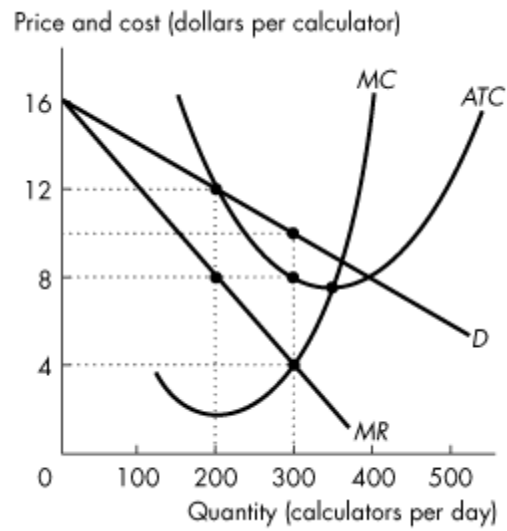


Figure 5

- 8) Refer to Figure 5. The figure shows the situation facing Smart Digit, Inc., a firm in monopolistic competition that produces calculators. The firm's markup is _____ per calculator.
- A) \$2
 - B) \$4
 - C) \$10
 - D) \$6
 - E) zero

Refer to the table below to answer the following question.

Table 1

		Dr. Smith	
		Advertise	Don't Advertise
Dr. Jones	Advertise	S: \$80 J: \$70	S: \$60 J: \$110
		Don't Advertise	S: \$120 J: \$60

- 9) Refer to Table 1. Libertyville has two optometrists, Dr. Smith and Dr. Jones. Each optometrist can choose to advertise his service or not. The incomes of each optometrist, in thousands of dollars, are given in the payoff matrix above. Which of the following statements correctly describes Dr. Smith's strategy given what Dr. Jones may do?
- A) Dr. Smith advertises only if Dr. Jones doesn't advertise.
 - B) Dr. Smith advertises only if Dr. Jones advertises.
 - C) Dr. Smith does not advertise no matter what Dr. Jones does.
 - D) Dr. Smith advertises no matter what Dr. Jones does.
 - E) Dr. Smith does not advertise if Dr. Jones advertises.

Refer to the table below to answer the following question.

Table 2

		Firm A	
		Comply	Cheat
Firm B	Comply	A: \$1m B: \$1m	A: \$1.5m B: -\$0.5m
		Cheat	A: -\$0.5m B: \$1.5m

- 10) Refer to Table 2. Firm A and Firm B are the only producers of soap powder. They collude and agree to share the market equally. The payoff matrix shows the game they play. The equilibrium of the game is that Firm A _____ and Firm B _____.
- A) cheats; complies
 - B) makes an economic profit; incurs an economic loss
 - C) complies; cheats
 - D) complies; complies
 - E) cheats; cheats

- 11) A contestable market exists whenever
- A) the Herfindahl-Hirschman Index exceeds 1,800.
 - B) the four-firm concentration ratio exceeds 50 percent.
 - C) potential entry holds down prices.
 - D) a monopoly contests entry into its markets.
 - E) two or more firms are competing.

Use the figure below to answer the following question.

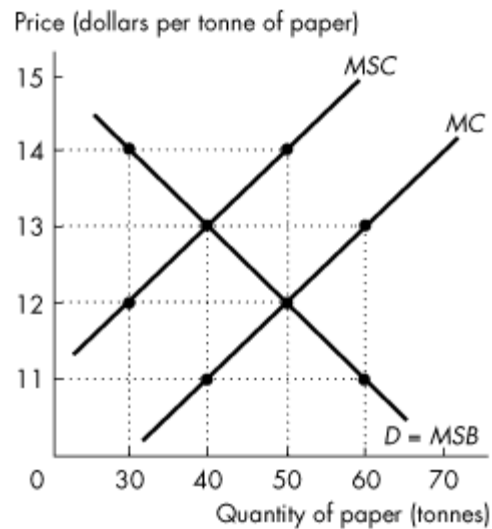


Figure 6

- 12) Refer to Figure 6. A tax of _____ per tonne is necessary to achieve the efficient output of _____ tonnes of paper.
- A) \$14; 50
 - B) \$2; 50
 - C) \$13; 40
 - D) \$14; 30
 - E) \$2; 40

Use the figure below to answer the following question.

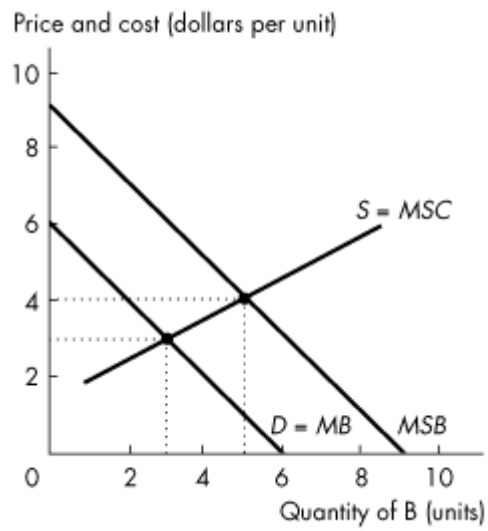


Figure 7

- 13) Refer to Figure 7. The figure shows the market for good B . What is the efficient quantity of good B ?
- A) 3 units
 - B) 9 units
 - C) 6 units
 - D) 5 units
 - E) 0 units

Refer to the table below to answer the following questions.

Table 3

Number of cows	Milk (litres per day)
10	20
20	40
30	70
40	110
50	110
60	70
70	40
80	20
90	0

- 14) Refer to Table 3. The table above gives the number of cows and the milk they can produce on a common pasture. The marginal cost of allowing a cow to graze is \$0 per cow. With no government intervention, the equilibrium number of cows is
- A) 40.
 - B) 90.
 - C) 60.
 - D) zero.
 - E) 50.
- 15) Refer to Table 3. The table above gives the number of cows and the milk they can produce on a common pasture. The marginal cost of allowing a cow to graze is \$0 per cow. The efficient number of cows is
- A) 45.
 - B) 5.
 - C) 90.
 - D) 40
 - E) 25.