DEPARTMENT OF ECONOMICS AND FINANCE

College of Management and Economics

ECON*1050 INTRODUCTORY MICROECONOMICS

Winter 2013 - Midterm II – Saturday March 23, 2013

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VERSION 1

- Identify yourself **(name and student number)** on the Computer Answer Sheet and on the last page of the exam booklet.

- You may not leave the room until 3pm.

- You may use a calculator.

- You are NOT allowed to use notes, textbooks, dictionaries, electronic devices.

- **Use only an HB or soft pencil** to completely darken the appropriate choice on the answer sheet. If you change an answer, be sure the answer is **erased fully.**

- There are 85 multiple choice questions and one problem set at the end of the exam booklet. Each multiple-choice question is worth 1 mark. The marks for the questions in the problem set are reported on the last page of the exam booklet.

- This is a **2 HOUR** examination.

- At the end of the examination, **hand in both computer sheet and short-answer page**.

- Do not begin until told to do so. Good Luck!

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

1) A country
   A) imports those goods in which it has a comparative advantage.
   B) exports those goods in which it has a comparative advantage.
   C) imports goods produced in countries with lower wage rates.
   D) exports goods produced by domestic industries with low wages relative to its trading partners.
   E) B and D are correct.

2) Canada has a comparative advantage in producing hardwood if the Canadian price of hardwood before international trade is _____ the world price.
   A) at least double
   B) greater than
   C) equal to
   D) not comparable to
   E) less than

Refer to the table below to answer the following questions.

Table 7.1.1
Glazeland's Doughnut Market

Price (dollars per doughnut)	Glazeland's Supply (millions)	Glazeland's Demand (millions)
0.20	1	10
0.30	2	8
0.40	3	6
0.50	4	4
0.60	5	2
0.70	6	0

3) Table 7.1.1 shows Glazeland's doughnut market before international trade. Glazeland opens up to international trade. If the world price is $0.60, then Glazeland will produce _____ doughnuts and will _____ doughnuts.
   A) 4 million; import 1 million
   B) 2 million; import 3 million
   C) 5 million; export 3 million
   D) 5 million; import 3 million
   E) 4 million; export 1 million

4) In a market that moves from a situation of no trade to a situation where a good is exported, the price of the good _____, the quantity produced by the domestic industry _____, and producer surplus _____.
   A) falls; decreases; decreases
   B) rises; increases; decreases
   C) does not change; decreases; decreases
   D) does not change; increases; increases
   E) rises; increases; increases

Refer to the figure below to answer the following question.

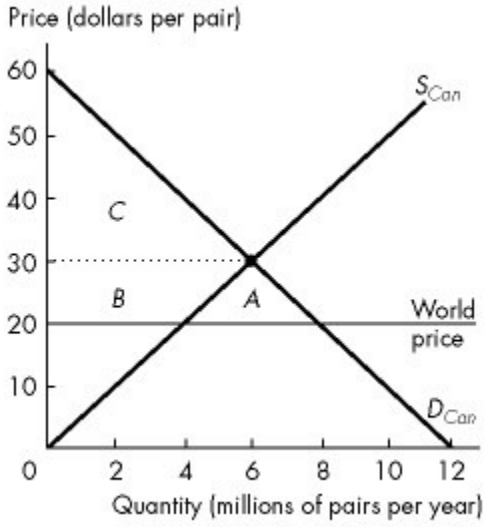


Figure 7.2.3

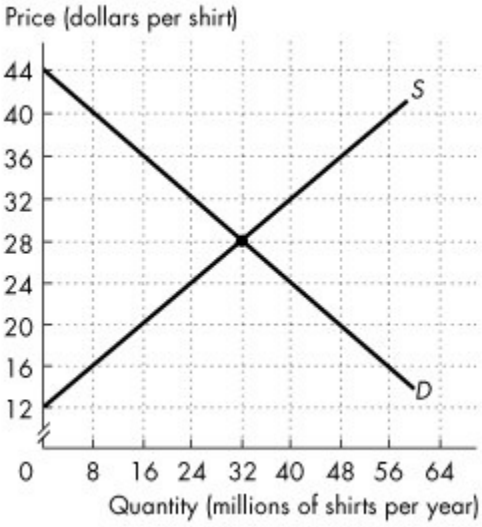
5) Refer to Figure 7.2.3. The graph shows the market for shoes in Canada. The world price of a pair of shoes is $20. With free international trade, Canadian consumer surplus _____ and Canadian producer surplus _____.
   A) decreases by area *A* + *B*; increases by area *B*
   B) increases by area *A* + *B*; decreases by area *B*
   C) decreases by area *B*; increases by area *A*
   D) increases by area *B*; decreases by area *B*
   E) increases by area *A*; decreases by area *B*

6) Which of the following statements concerning tariffs is *NOT* true?
   A) A tariff leaves the price of imports unchanged.
   B) A tariff results in a deadweight loss.
   C) A tariff creates revenue for the government.
   D) A tariff decreases international trade.
   E) A tariff decreases consumer surplus.

7) Canada imports cars from Japan. If Canada imposes a tariff on cars imported from Japan, Canadian
   A) producers will lose and Japanese consumers will gain.
   B) consumers will lose and Canadian producers will gain.
   C) car manufacturers will gain revenue equal to the revenue lost by Japanese car manufacturers.
   D) tariff revenue will equal the loss of Canadian consumer surplus.
   E) consumers will lose and Japanese producers will gain.

8) If a government imposes a quota on imports of a popular doll, the price of the doll in the importing country _____ and the quantity purchased in the importing country _____.
   A) rises; decreases
   B) falls; increases
   C) rises; does not change
   D) falls; decreases
   E) rises; increases

Refer to the figure below to answer the following questions.



The figure shows the market for shirts in Canada, where D is the domestic demand curve and S is the domestic supply curve. The world price is $20 per shirt. Canada imposes a tariff on imported shirts of $4 per shirt.

Figure 7.3.1

9) Refer to Figure 7.3.1, without the tariff Canadians buy _____ million shirts per year.
A) 16 B) 40 C) 32 D) 48 E) 24

10) Refer to Figure 7.3.1, with the tariff Canadians buy _____ million shirts per year.
A) 24 B) 16 C) 48 D) 32 E) 40

11) Refer to Figure 7.3.1, the Canadian government's revenue from the tariff is _____.
A) $48 million B) $480 million C) $64 million D) $32 million E) $128 million

12) Refer to Figure 7.3.1, the deadweight loss from the tariff is _____.
A) $80 million B) $64 million C) zero D) $32 million E) $16 million

13) Economists usually agree with which of the following arguments that favour protectionism?
A) the job protection defence
B) the competition with cheap foreign labour defence
C) the dumping defence
D) the infant–industry defence
E) None of the above. Economists generally agree that arguments in favor of protection are flawed.

14) One reason that international trade is restricted is that
A) the government completely pays the losers from international trade for their losses.
B) protectionism benefits consumers.
C) tariff revenue raises more income than income taxes in industrial countries.
D) the government cannot measure the cost of protectionism.
E) the individual gain to parties who benefit from the protection will be much larger than the individual loss to parties who lose.

Refer to the figure below to answer the following question.

Figure 7.3.2

15) Refer to Figure 7.3.2. The supply of peanuts in Canada is made up of Canadian grown peanuts and imported peanuts. Initially, Canada engages in free trade in the peanut market. Then Canada puts a quota on peanut imports. The graph shows the Canadian market for peanuts when the Canadian government puts a quota on peanut imports. The Canadian consumer surplus that is redistributed to Canadian producers is _____ and the quota creates a deadweight loss equal to _____.
A) area *B*; area *D* + *E*
B) area *B*; area *C* + *E*
C) area *B* + *C* + *F*; area *D*
D) area *B* + *C* + *D* + *E*; zero
E) area *B* + *C* + *D*; area *E* + *F*

16) Of the groups listed below, which is most likely to lobby for protection?
A) workers in the export industry
B) producers in the export industry
C) workers in the import industry
D) consumers in the import industry
E) All of the above.

17) Canada exports athletic coaching services and imports computer tech support. The price of computer tech support in Canada is _____ with international trade than without international trade. As a result of trade in computer tech support, the Canadian producer surplus from computer tech support _____ and the Canadian consumer surplus from computer tech support _____.
A) lower; decreases; decreases
B) higher; increases; decreases
C) lower; decreases; increases
D) higher; increases; increases
E) lower; increases; increases

18) The fact that your fourth slice of pizza does not generate as much satisfaction as your third slice is an example of
A) consumer surplus.
B) diminishing total utility.
C) the paradox of value.
D) the law of demand.
E) diminishing marginal utility.

Use the table below to answer the following questions.

Table 8.1.1

Quantity	Total Utility	Marginal Utility
0	0	
		30
1	30	
		12
2	*A*	
		5
3	*B*	
		C
4	50	

19) Refer to Table 8.1.1. The value of *C* is
A) 0. B) 17. C) 3. D) 13. E) 50.

20) The budget line
A) shows the limits to a household's consumption choices.
B) is downward sloping because it illustrates decreasing marginal utility.
C) shows the households total utility.
D) shows how a household's consumption choices change as income changes.
E) Both A and D are correct.

21) Geneva is not at her consumer equilibrium for movies and music downloads. Why?
A) Her total utility from movies does not equal her total utility from music downloads.
B) Her marginal utility from the last movie she attended does not equal her marginal utility from the last music download she downloaded.
C) Her average utility from movies does not equal her total utility from music downloads.
D) Her marginal utility per dollar from the last movie she attended does not equal her marginal utility per dollar from the last music download she downloaded.
E) Her average utility from movies does not equal her average utility from music downloads.

22) Sarah can consume either pizzas or hamburgers. The price of a hamburger is \$1 and the price of a pizza is \$5. Let MU_h be the marginal utility of hamburgers and MU_p be the marginal utility of pizzas. In consumer equilibrium, what must the ratio MU_h/MU_p equal?
A) 5/1 B) 1/1 C) 1/6 D) 1/5 E) 4

Use the table below to answer the following questions.

Table 8.2.1

Hours Spent	Total Utility from Sailing	Total Utility from Skiing
1	100	70
2	140	110
3	170	140
4	190	150

23) Refer to Table 8.2.1. Consider Sam's utility from sailing and skiing. If the price of sailing is $10 per hour and the price of skiing is $20 per hour, Sam will choose to spend
A) all his time sailing.
B) more time sailing than skiing.
C) all his time skiing.
D) more time skiing than sailing.
E) the same amount of time sailing and skiing, since they give the same amount of utility.

24) Advise Sarah how to maximize her utility if $MU_{A=8}$, $MU_{B=20}$, $P_{A=4}$ and $P_{B=5}$.
A) Raise the price of good *A*.
B) Consume more of good *B* and less of good *A*.
C) Consume more of good *A* and less of good *B*.
D) Lower the price of good *B*.
E) Consume equal amounts of both goods.

25) Samir consumes apples and bananas and is in consumer equilibrium. The marginal utility from his last apple is 10 and the marginal utility from his last banana is 5. If the price of an apple is $0.50, then what is the price of a banana?
A) $0.10 B) $0.05 C) $0.25 D) $1.00 E) $0.50

26) Suppose a consumer spends all his income. His marginal utility per dollar on *X* is 4 and marginal utility per dollar on *Y* is 2. We know that
A) the price of *Y* must be eight times the price of *X*.
B) the price of *Y* must be one–third the price of *X*.
C) utility can be increased by decreasing the consumption of *X* and increasing the consumption of *Y*.
D) utility can be increased by increasing the consumption of *X* and decreasing the consumption of *Y*.
E) utility is maximized.

27) In consumer equilibrium, a consumer equates the
A) marginal utility per dollar on each good.
B) total income spent on each good with total utility from each good.
C) total utility from each good.
D) total utility per dollar on each good.
E) marginal utility from each good.

28) Billy likes candy bars and popcorn. Candy bars sell for $0.50 each and popcorn sells for $1 per bag. Currently he is in consumer equilibrium. Then the price of a candy bar rises to $1. Which statement is true in the new consumer equilibrium?
A) Total utility will increase.
B) The marginal utility from candy will decrease.
C) The marginal utility from candy will be equal to the marginal utility from popcorn.
D) Marginal utility per dollar on candy bars will be equal to 2.
E) The marginal utility from popcorn will increase.

29) Harold can consume apples and oranges. He likes them equally well and currently is in consumer equilibrium. Then the price of oranges rises, while his income remains the same. What will happen to his consumption?
A) consumption of oranges increases; consumption of apples decreases
B) consumption of oranges decreases; consumption of apples could either increase or decrease
C) consumption of oranges decreases; consumption of apples increases
D) consumption of oranges increases; consumption of apples increases
E) consumption of oranges decreases; consumption of apples decreases

30) If income increases, the budget line
A) becomes steeper.
B) shifts parallels either leftward or rightward depending on whether the goods measured on the axes are normal or inferior.
C) shifts rightward and parallel to the original budget line.
D) becomes flatter.
E) shifts leftward and parallel to the original budget line.

31) As a consumer's income decreases, marginal utility theory predicts that
A) the price of normal goods falls.
B) total utility increases.
C) the demand for normal goods increases.
D) the demand for normal goods decreases.
E) the demand for all goods decreases.

32) Ben consumes only movies and video games and he is in consumer equilibrium. For Ben, movies and video games are substitutes.
The price of a movie falls which _____ the marginal utility per dollar from movies.
To return to consumer equilibrium, Ben _____ the number of movies he sees and _____ the number of video games he plays.
His marginal utility per dollar for movies _____ and his marginal utility per dollar for video games _____ as he returns to consumer equilibrium.
A) decreases; decreases; increases; increases; decreases
B) increases; decreases; increases; decreases; increases
C) increases; increases; decreases; increases; increases
D) decreases; increases; decreases; decreases; increases
E) increases; increases; decreases; decreases; increases

33) Which one of the following statements is true?
A) Consumer surplus on a unit of a good will never be zero.
B) Since consumers of a good consume this good until the price equals the value of the last unit, they clearly get no benefit from consuming this good.
C) The value of a good to a consumer is measured by the price.
D) Consumers choosing between goods X and Y will set $MU_X = MU_Y$.
E) If the marginal utility per dollar of good X is less than the marginal utility per dollar of good Y, then the consumer should shift some spending from X to Y.

34) A firm's opportunity cost includes
A) the cost of using resources bought in the market and owned by the firm only.
B) only costs that are paid in cash or by cheque.
C) economic profit.
D) the cost of using resources bought in the market, owned by the firm, and supplied by the firm's owner.
E) the cost of using resources supplied by the firm's owner only.

35) In general,
(1) opportunity cost is greater than accounting cost.
(2) opportunity cost is less than accounting cost.
(3) economic profit is greater than accounting profit.
(4) economic profit is less than accounting profit.
A) 1 only B) 1 and 3 C) 1 and 4 D) 2 and 3 E) 2 and 4

36) The difference in the market value of a new car and the market value of the same car one year later is
A) economic deterioration.
B) economic depreciation.
C) conventional depreciation.
D) physical depreciation.
E) physical deterioration.

37) To produce a unit of output, Alphaworks uses 10 hours of labour and 5 kilograms of material. Betaworks uses 5 hours of labour and 10 kilograms of material, and Gammaworks uses 10 hours of labour and 10 kilograms of material. If labour costs $10 per hour and material costs $5 per kilogram, which firm is *economically* efficient?
A) Alphaworks only
B) Betaworks only
C) Gammaworks only
D) Alphaworks and Gammaworks
E) Alphaworks and Betaworks

38) Which one of the following statements is *not* true?
A) A production process is technologically efficient only if it is producing a given output at the lowest possible cost.
B) Economically efficient firms will be more likely to survive than economically inefficient firms.
C) Economic efficiency depends on the relative price of inputs, while technological efficiency does not.
D) Technologically efficient firms are more likely to survive than technologically inefficient firms.
E) If a process is economically efficient, it must be technologically efficient as well.

39) Firm strategies for coping with the principal–agent problem are
A) technology, information, and the market.
B) ownership, scope, and the market.
C) economies of scale, scope, and team production.
D) ownership, incentive pay, and long–term contracts.
E) sole proprietorship, partnership, and the corporation.

40) Which one of the following statements describes a market that is monopolistically competitive?
A) The presence of significant barriers to entry.
B) The product produced by one firm has no close substitutes.
C) There is a small number of large firms.
D) The products produced by the firms are identical.
E) Many firms compete by making similar but slightly different products.

41) One difference between perfect competition and monopolistic competition is
A) monopolistic competition has barriers to entry, whereas perfect competition has none.
B) firms in a perfectly competitive market produce similar but slightly different products.
C) in perfect competition, the product produced has no close substitutes.
D) firms in monopolistic competition have some degree of market power.
E) a small number of firms compete in a monopolistically competitive market and a large number of firms compete in a perfectly competitive market.

42) A market structure where a small number of firms compete occurs in
A) monopoly.
B) the worldwide market for wheat, corn, and rice.
C) oligopoly.
D) monopolistic competition.
E) perfect competition.

43) Firms coordinate economic activity more efficiently than markets when firms have
A) economies of team production.
B) lower transactions costs.
C) economies of scale.
D) economies of scope.
E) all of the above.

44) When Jitters Coffee Company, Inc., can lower the cost of packaging a kilogram of coffee by doubling the quantity packaged each day, it is achieving
A) lower transactions costs
B) economies of scope.
C) economies of scale.
D) efficient team production.
E) all of the above

45) A firm with a lower unit cost from producing a wider range of goods and services has economies of
A) market coordination.
B) team production.
C) transactions costs.
D) scale.
E) scope.

46) A group of business people are having coffee. Which of the following quotations describes transactions costs?
A) "The new production process we've installed uses less capital and labour than the old one."
B) "Despite the higher costs of negotiating the contracts, hiring the cleaning firm is much cheaper than using our own staff."
C) "The costs of per–unit production have fallen dramatically as we have increased the length of the production runs."
D) "The computer servicing people we have hired work very well as an integrated problem–solving group."
E) "The new assembly line has higher capital costs, but the fall in workers' hours has lowered overall costs."

47) The short run is a time frame in which
A) at least one factor of production is fixed.
B) the firm is not able to hire more workers.
C) the amount of output produced is fixed.
D) there is a shortage of most factors of production.
E) there is not enough time to make all of the decisions necessary to maximize profit.

48) When the demand for electricity peaks during the hottest days of summer, Hydro One can generate more electricity by using more fuel and increasing the working hours of many of its employees. The company cannot, however, increase electric power production by building additional generating capacity. This means that the company is operating in the
A) intermediate run.
B) short run.
C) immediate run.
D) long run.
E) market run.

Use the information below to answer the following questions.

Fact 11.1.1

January 31, 2008: Starbucks will open 75 more stores abroad than originally predicted, for a total of 975.
February 25, 2008: For three hours on Tuesday, Starbucks will shut down every single one of its 7,100 stores so that baristas can receive a refresher course.
June 2, 2008: Starbucks replaces baristas with vending machines.
July 18, 2008: Starbucks is closing 616 stores by the end of March.

49) Refer to Fact 11.1.1. The decisions made on _____ are long–run decisions because they _____.
A) June 2; are changes to labour which affect people for the long term
B) February 25, June 2, and July 18; all deal with stores located in the United States
C) January 31 and July 18; change Starbucks' plant
D) January 31 and February 25; are the earliest decisions
E) None of the above.

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

Use the table below to answer the following question.

Table 11.2.4

Number of Workers	Total Product (baskets of corn)
1	0
2	3
3	7
4	10
5	12

51) Refer to Table 11.2.4. The table gives the total product schedule of workers who harvest corn. Diminishing marginal returns begin when the _____ is hired.
A) 1st labourer
B) 2nd labourer
C) 3rd labourer
D) 4th labourer
E) There are no diminishing marginal returns since total product always rises.

52) Which of the following quotes *best* illustrates the idea of average product?
A) "I find if I add an extra shift at night, table production only rises by 80 percent because I need more maintenance time on the assembly line."
B) "If I have 10 workers on my assembly line, I can produce 13 tables a day."
C) "If I add an 11th worker, I can produce 1 extra table a day."
D) "Each worker produces 2 tables a day."
E) "If I double workers and double the assembly line, I can make 120 percent more tables."

53) Which of the following are correct? According to the law of diminishing returns,
(1) marginal product eventually rises.
(2) marginal product eventually falls.
(3) marginal cost eventually rises.
(4) marginal cost eventually falls.
A) (1) and (3) B) (1) and (4) C) (2) and (3) D) (2) and (4) E) (4)

54) Which one of the following statements is *false*?
A) Total variable cost plus total fixed cost equals total cost.
B) The total cost curve is U–shaped.
C) Average total cost is calculated by dividing total cost by the level of output.
D) The average cost curve is U–shaped.
E) Marginal cost equals the change in total cost divided by the change in output.

Use the table below to answer the following questions.

Table 11.3.1

Labour (workers per day)	Output (teapots per day)	TFC (dollars per day)	TVC (dollars per day)	TC (dollars per day)
0	0	20	0	20
1	4	20	--	45
2	9	20	--	70
3	13	20	--	95
4	16	20	100	--
5	18	20	125	145

55) Refer to Table 11.3.1, which gives Tania's total cost schedule. The average variable cost of producing 9 teapots per day is
A) $1.54. B) $1.25. C) $5.56. D) $1.11. E) $10.00.

56) Refer to Table 11.3.1, which gives Tania's total cost schedule. The average total cost of producing 16 teapots per day is
A) $5. B) $5.51. C) $3.33. D) $7.50. E) $2.

57) Refer to Table 11.3.1, which gives Tania's total cost schedule. When output increases from 4 to 9 teapots, the marginal cost of one of the 5 teapots is
A) $4.25. B) $4. C) $5. D) $25. E) $6.25.

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

59) Which of the following quotes *best* illustrates the idea of fixed cost?
A) "If I double the number of workers and trucks, I get only 80 percent more packages delivered."
B) "My primary source of overhead cost is the cost of running the head office."
C) "As we increase output, per-unit costs fall."
D) "If I need to, I can negotiate more overtime with my work force to meet unexpected orders."
E) None of the above.

60) Sue's Surfboards rents the factory building in which it produces surfboards. The rent is increased by $200 a week. If other things remain the same, the average fixed cost curve _____, the average variable cost curve _____, the average total cost curve _____, and the marginal cost curve _____.
A) shifts upward; shifts upward; shifts upward; shifts upward
B) shifts upward; does not change; shifts upward; shifts upward
C) does not change; shifts upward; shifts upward; shifts upward
D) shifts upward; does not change; shifts upward; does not change
E) shifts upward; does not change; does not change; shifts upward

Use the figure below to answer the following questions.

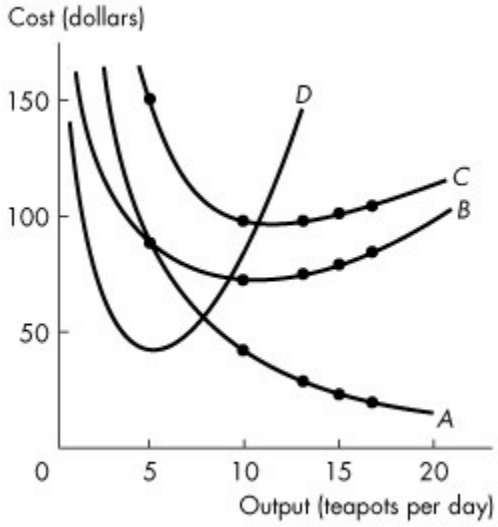


Figure 11.3.2

61) Refer to Figure 11.3.2, which illustrates short–run average and marginal cost curves. Which one of the following statements is *false*?
A) Average fixed cost decreases with output.
B) The vertical gap between curves *B* and *C* is equal to average fixed cost.
C) The vertical gap between curves *B* and *C* is equal to average variable cost.
D) Line *B* comes closer to line *C* as output increases because of a decrease in average fixed cost.
E) Curve *D* is the marginal cost curve.

62) Which type of cost does not change as the quantity of output produced changes?
A) average total cost
B) marginal cost
C) average fixed cost
D) total fixed cost
E) Both C and D are correct.

63) A production function is the relationship between the maximum output attainable and the
A) change in technology.
B) demand for output.
C) price of output.
D) quantities of inputs used.
E) amount of labour used.

64) Suppose a candy manufacturer can double its production of fudge by doubling its production facility for making fudge. This indicates the presence of
A) market constraints.
B) constant returns to scale.
C) economies of scale.
D) diseconomies of scale.
E) the law of diminishing returns.

65) Economies of scale are present when
A) total fixed cost increases.
B) average total cost remains constant as input increases.
C) average total cost rises as output increases.
D) the *LRAC* curve is horizontal.
E) the *LRAC* curve slopes downward.

Use the figure below to answer the following questions.

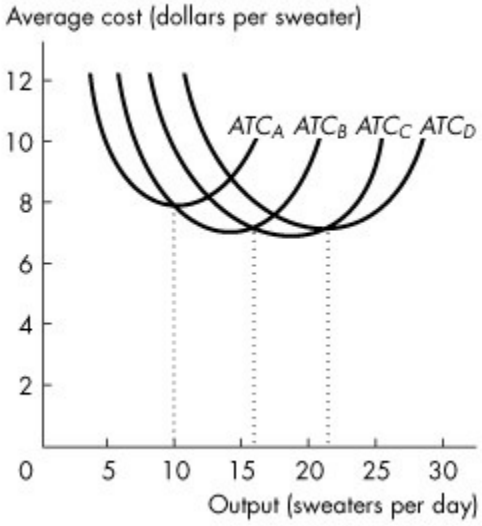


Figure 11.4.2

66) Refer to Figure 11.4.2, which illustrates the short–run average total cost curves for four different plant sizes. Which plant has the lowest average total cost for an output rate of 5 sweaters a day?
A) Plant *A*
B) Plant *B*
C) Plant *C*
D) Plant *D*
E) none of the above

67) The long–run average cost curve is the relationship between the lowest attainable average total cost and output, when plant size is _____ and labour is _____. The long–run average cost curve is made up of the segments of individual average _____ cost curves with the lowest average _____ cost for a given output.
A) varied; held constant; variable; variable
B) held constant; varied; variable; variable
C) varied; varied; total; total
D) varied; varied; variable; variable
E) held constant; varied; total; total

68) Which one of the following does *not* occur in perfect competition?
A) Sellers and buyers are well informed about prices.
B) Established firms have no advantage over new ones.
C) No single firm can exert a significant influence on the market price of the good.
D) There are many buyers.
E) There are significant restrictions on entry into the market.

Use the table below to answer the following questions.

Table 12.1.1

Quantity (units)	Price (dollars)
5	15
6	15
7	15

69) Refer to Table 12.1.1 which gives the demand schedule for a perfectly competitive firm. If the firm sells 5 units of output, total revenue is
A) $75. B) $90. C) $30. D) $15. E) $105.

70) Refer to Table 12.1.1 which gives the demand schedule for a perfectly competitive firm. If the quantity sold by the firm rises from 5 to 6, marginal revenue is
A) $30. B) $105. C) $15. D) $75. E) $90.

71) For perfect competition to arise, it is necessary that market demand be
A) elastic.
B) perfectly elastic.
C) small relative to the minimum efficient scale of a single firm.
D) large relative to the minimum efficient scale of a single firm.
E) inelastic.

72) Assume that the leather market is a perfectly competitive market. The market demand curve for leather is _____ and each individual leather producer's demand curve is _____.
A) vertical; downward sloping
B) horizontal; horizontal
C) downward sloping; vertical
D) downward sloping; horizontal
E) horizontal; downward sloping

Use the table below to answer the following questions.

Table 12.2.2

Output (pizzas per hour)	Total Cost (dollars per hour)
0	10
1	12
2	16
3	22
4	30
5	40
6	55

73) Refer to Table 12.2.2, which gives the total cost schedule for Chip's Pizza Palace, a perfectly competitive firm. If the price of a pizza is $7, what is Chip's profit–maximizing output per hour?
A) zero pizzas B) 1 pizza C) 2 pizzas D) 3 pizzas E) 4 pizzas

74) Refer to Table 12.2.2, which gives the total cost schedule for Chip's Pizza Palace, a perfectly competitive firm. If Chip shuts down in the short run, his total cost is
A) $0. B) $12 an hour. C) $40 an hour. D) $10 an hour. E) $22 an hour.

75) If price falls below minimum average variable cost, the best a firm can do is
A) increase production and incur a loss equal to total variable cost.
B) stay at the same production level and incur a loss equal to the difference between total cost and total revenue.
C) stop production and incur a loss equal to total variable cost.
D) increase production and incur a loss equal to total fixed cost.
E) stop production and incur a loss equal to total fixed cost.

Use the figure below to answer the following question.

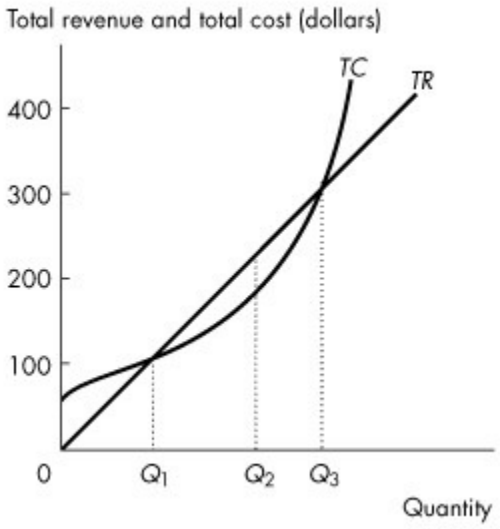


Figure 12.2.1

76) Refer to Figure 12.2.1, which shows a perfectly competitive firm's total revenue and total cost curves. Which one of the following statements is *false*?
A) At an output of Q_1 units a day, the firm makes zero economic profit.
B) At an output less than Q_1 units a day, the firm incurs an economic loss.
C) At an output of Q_2 units a day, the firm incurs an economic loss.
D) At an output greater than Q_3 units a day, the firm incurs an economic loss.
E) Economic profit is the vertical distance between the total revenue curve and the total cost curve.

77) In the price range above minimum average variable cost, a perfectly competitive firm's supply curve is
A) vertical at zero output.
B) the same as its marginal cost curve.
C) the same as its average variable cost curve.
D) horizontal at the market price.
E) none of the above.

78) In which one of the following situations will a perfectly competitive firm make an economic loss?
A) $MC > AVC$ B) $ATC > MC$ C) $MR > ATC$ D) $ATC > MR$ E) $MR > AVC$

Use the figure below to answer the following question.

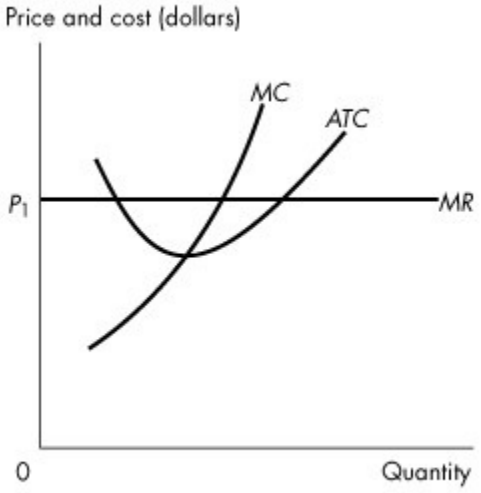


Figure 12.3.2

79) Refer to Figure 12.3.2 which shows the cost curves and marginal revenue curve of a firm in a perfectly competitive industry, The firm is
A) breaking even.
B) going to close down temporarily.
C) incurring an economic loss.
D) making an economic profit.
E) not maximizing economic profit.

80) Firms will stop exiting a market only when
A) marginal revenue equals price.
B) marginal revenue equals marginal cost.
C) all remaining firms are making zero economic profit.
D) marginal revenue equals average fixed cost.
E) all remaining firms are making an economic profit.

81) Consider a perfectly competitive market with long–run external diseconomies. When demand increases permanently, the equilibrium price
A) remains constant and the equilibrium quantity decreases.
B) rises and the equilibrium quantity increases.
C) falls and the equilibrium quantity decreases.
D) remains constant and the equilibrium quantity increases.
E) rises and the equilibrium quantity remains the same.

82) The long–run market supply curve is positively sloped when
A) external diseconomies exist.
B) external economies exist.
C) neither external economies nor diseconomies exist.
D) external benefits exist.
E) external costs exist.

Use the figure below to answer the following questions.

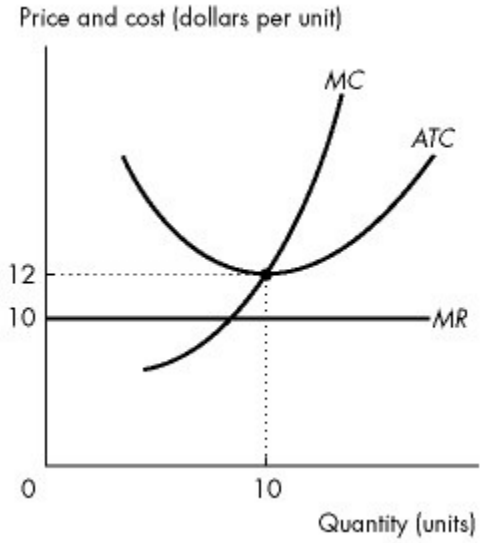


Figure 12.3.1

83) Refer to Figure 12.3.1, which shows the cost curves and marginal revenue curve of a firm in a perfectly competitive industry. In the short run, if the market price of the good is $10, the firm produces _____ units of output and _____.
A) less than 10; incurs an economic loss of $20
B) 10; makes an economic profit of $20
C) less than 10; incurs an economic loss of less than $20
D) 10; incurs an economic loss of $40
E) 10; incurs an economic loss of $20

84) Refer to Figure 12.3.1, which shows the cost curves and marginal revenue curve of a firm in a perfectly competitive market. In the long run, market
A) supply will decrease.
B) supply and market demand will decrease.
C) demand will increase.
D) supply will increase.
E) demand will decrease.

85) A market with constant costs is in long–run equilibrium when it experiences a permanent increase in demand.
Market supply _____ and the market price _____.
Market output _____ and in the long run each remaining firm makes _____ profit.
A) decreases; rises until it reaches each firms' minimum average variable cost; decreases; zero economic
B) increases; falls until it reaches each firms' minimum average total cost; increases; zero economic
C) decreases; rises until it reaches each firms' minimum average total cost; decreases; an economic
D) increases; does not change; increases; zero economic
E) increases; falls; increases; an economic

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SHORT-ANSWER QUESTIONS –Midterm II – version 1

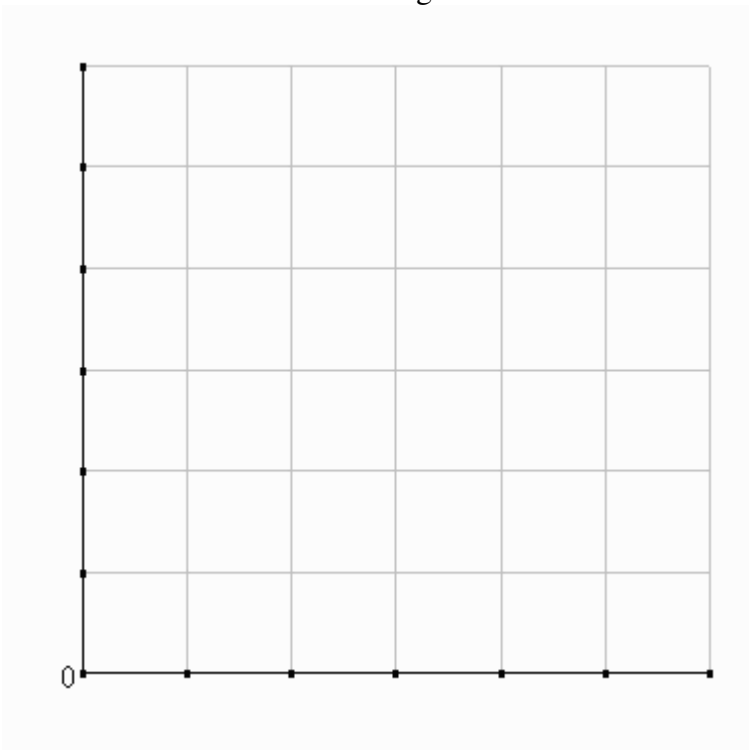
Refer to the table below to answer the questions. The table shows the total cost schedule for a perfectly competitive firm.

Output	**Total Cost ($)**					
0	14					
1	38					
2	48					
3	62					
4	80					
5	102					
6	128					

1. **(4 marks)** Fill in the table by computing AVC (average variable cost), ATC (average total cost) and MC (marginal cost). Note that the table has more columns than needed in case you want to compute intermediate steps.

2. **(2 marks)** Compute the shutdown point and break-even point:
   SHUTDOWN POINT: P = q =
   BREAK-EVEN POINT: P = q =

3. (**3 marks**) Sketch the MC, ATC and AVC curves in the graph below. Label the axes and the curves. Make sure the curves intersect at the right coordinates.



4. (**1 mark**) Calculate the profit-maximizing output when the market price is equal to $14.
   q*=