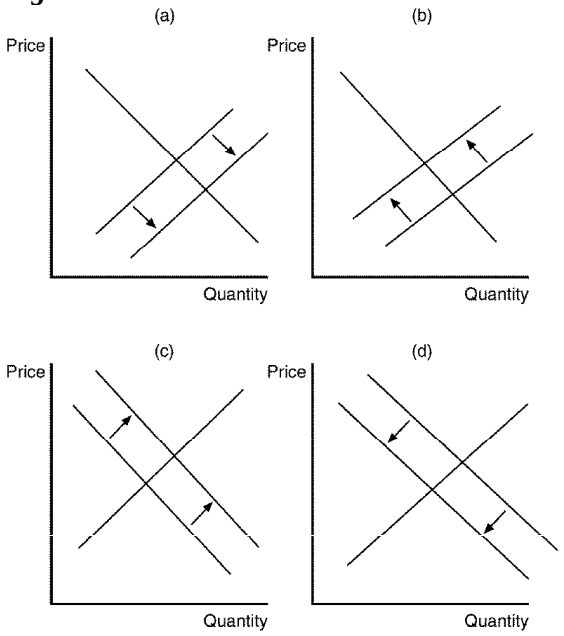
December 13, 2006
75 questions, 2.5 hours (150 mintues)
Professor: P. Missios

ECN 104 Final Exam

Multiple Choice
Identify the letter of the choice that best completes the statement or answers the question.

Lines in the figures below reflect the potential effect of entry and exit in a monopolistically competitive market on the demand and/or marginal cost curves of incumbent firms. Use these figures to answer the following questions.

Figure 17-3



____ 1. **Refer to Figure 17-3**. Which of the diagrams depicts the effect on incumbent firms of some existing firms leaving the market?
ⓐ panel b
ⓑ panel c
ⓒ panel d
ⓓ panel a

____ 2. Goods X and Y are perfect complements. If the price of good Y falls, then the substitution effect by itself will
ⓐ cause consumers to buy more of good X and less of good Y.
ⓑ not affect the amount of goods X and Y that consumers buy.
ⓒ cause consumers to buy more of good Y and less of good X.
ⓓ All of the above are correct.

____ 3. Deadweight loss measures the
ⓐ loss in a market to buyers and sellers that is not offset by an increase in government revenue.
ⓑ loss in revenue to the government when buyers choose to buy less of the product.
ⓒ loss of efficiency in a market as a result of government intervention.
ⓓ lost revenue to businesses because of higher prices to consumers from the tax.

____ 4. If, to begin, a market is perfectly competitive, and then it is taken over by three or four firms, we would expect, as a result,
   ⓐ an increase in market output and an decrease in the price of the product.
   ⓑ a decrease in market output and an increase in the price of the product.
   ⓒ an increase in market output and an increase in the price of the product.
   ⓓ a decrease in market output and a decrease in the price of the product.

____ 5. Barb and Sue are competitors in a local market. Each is trying to decide if it is better to advertise on TV, on radio, or not at all. If they both advertise on TV, each will earn a profit of $5,000. If they both advertise on radio, each will earn a profit of $7,000. If neither advertises at all, each will earn a profit of $10,000. If one advertises on TV and other advertises on radio, then the one advertising on TV will earn $8,000 and the other will earn $3,000. If one advertises on TV and the other does not advertise, then the one advertising on TV will earn $15,000 and the other will earn $2,000. If one advertises on radio and the other does not advertise, then the one advertising on radio will earn $12,000 and the other will earn $4,000. If both follow their dominant strategy, then Barb will
   ⓐ advertise on TV and earn $5,000.
   ⓑ advertise on TV and earn $15,000.
   ⓒ advertise on radio and earn $7,000.
   ⓓ not advertise and earn $10,000.

____ 6. In the circular-flow diagram,
   ⓐ households are sellers in the resource market.
   ⓑ firms are buyers in the product market.
   ⓒ spending on goods and services flows from firms to households.
   ⓓ firms are sellers in the resource market and the product market.

____ 7. Alma, Bob and Carlos are competitors in a local market, and each is trying to decide if it is worthwhile to advertise. If all of them advertise, each will earn a profit of $2,000. If none of them advertise, each will earn a profit of $8,000. If only one of them advertises, the one who advertises will earn a profit of $6,000 and the other two will each earn $5,000. If two of them advertise, those two will each earn a profit of $4,000 and the other one will earn $3,000. If all three follow their dominant strategy, Alma will
   ⓐ not advertise and earn $5,000.
   ⓑ advertise and earn $2000.
   ⓒ advertise and earn $4,000.
   ⓓ not advertise and earn $8,000.

____ 8. Suppose that 50 candy bars are demanded at a particular price. If the price of candy bars rises by 4 percent, the number of candy bars demanded falls to 46 candy bars. According to the midpoint method, this means that the
   ⓐ demand for candy bars in this price range is elastic.
   ⓑ demand for candy bars is unit elastic.
   ⓒ demand for candy bars in this price range is inelastic.
   ⓓ price elasticity of demand for candy bars is 0.

____ 9. A monopolist faces the following demand curve:

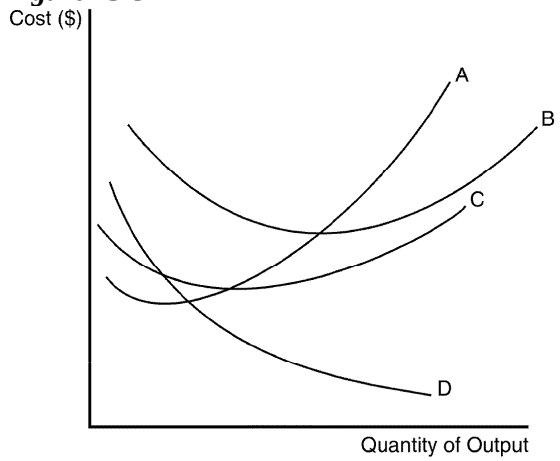
Price	Quantity Demanded
$51	1
$47	2
$42	3
$36	4
$29	5
$21	6
$12	7

The monopolist has total fixed costs of $60 and has a constant marginal cost of $15. What is the profit-maximizing level of production?

ⓐ 2 units
ⓑ 3 units
ⓒ 4 units
ⓓ 5 units

The curves below reflect information about the cost structure of a firm. Use the figure to answer the following questions.

Figure 13-5



____ 10. **Refer to Figure 13-5**. Curve A is U-shaped because of

ⓐ diminishing marginal product.
ⓑ the fact that decreasing marginal product follows increasing marginal product.
ⓒ increasing marginal product.
ⓓ the fact that increasing marginal product follows decreasing marginal product.

____ 11. **Refer to Figure 13-5**. Which of the curves is most likely to represent average total cost?

ⓐ B
ⓑ A
ⓒ C
ⓓ D

____ 12. **Refer to Figure 13-5**. This particular firm is necessarily experiencing diminishing marginal product when curve

(i) A is rising.
(ii) B is rising.
(iii) C is rising.

ⓐ (i) and (ii)
ⓑ (iii) only
ⓒ (i) only
ⓓ All of the above are correct.

____ 13. Tom owns a factory in which he has produced TVs for five years. He has kept track of his average total cost as his level of production varies. This information is summarized below:

Output	Average Total Cost
10	$500
20	$400
30	$300
40	$400
50	$500

From this information, we can conclude that

ⓐ Tom's factory exhibits both economies and diseconomies of scale.
ⓑ Tom's factory exhibits constant returns to scale.
ⓒ Tom's factory exhibits only diseconomies of scale.
ⓓ None of the above are correct.

____ 14. The smaller the price elasticity of demand the

ⓐ steeper the demand curve will be through a given point.
ⓑ more equal the price elasticity of demand will be to the slope of the curve.
ⓒ flatter the demand curve will be through a given point.
ⓓ closer the price elasticity of demand will be to the slope of the curve.

____ 15. Suppose that the equilibrium price in the market for widgets is $5. If a law increased the minimum legal price for widgets to $6, producer surplus

ⓐ might increase or decrease.
ⓑ would necessarily decrease because the higher price would create a surplus of widgets.
ⓒ would be unaffected.
ⓓ would necessarily increase even if the higher price resulted in a surplus of widgets.

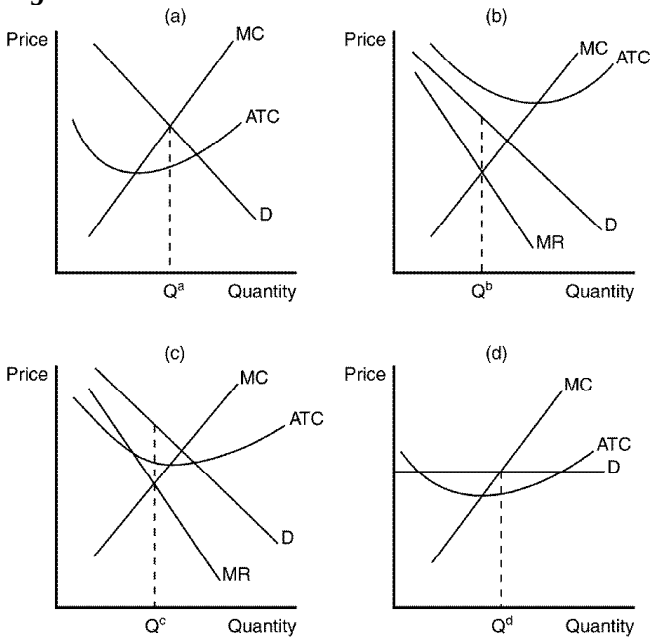
____ 16. Assume that a tax is levied on a good and the government uses the funds to build statues of the Governors of each of the 50 states. In this case which of the following would NOT occur?

ⓐ a decrease in producer surplus to producers of the taxed good
ⓑ a probable decrease in the welfare of society that exceeds the deadweight loss from the tax
ⓒ a deadweight loss larger than the loss in both consumer and producer surplus
ⓓ a decrease in consumer surplus to consumers of the taxed good

____ 17. At present, the maximum legal price for a human kidney is $0. The price of $0 maximizes

ⓐ both consumer and producer surplus.
ⓑ neither consumer nor producer surplus.
ⓒ consumer surplus, but not producer surplus.
ⓓ producer surplus, but not consumer surplus.

Figure 17-2



____ 18. **Refer to Figure 17-2**. Which of the graphs shown would be consistent with a firm in a monopolistically competitive market that is doing its best but still losing money?

ⓐ panel c
ⓑ panel a
ⓒ panel d
ⓓ panel b

Table 3-3

	Labor Hours Needed to Make One Unit of:		Amount Produced in 24 Hours:	
	Baskets	Birdhouses	Baskets	Birdhouses
Montana	6	2	4	12
Missouri	3	4	8	6

____ 19. **Refer to Table 3-3**. The opportunity cost of 1 birdhouse for Montana is

ⓐ 3 baskets.
ⓑ 1 basket.
ⓒ 4/3 baskets.
ⓓ 1/3 basket.

____ 20. A firm in a competitive market has the following cost structure:

Output	Total Cost
0	$5
1	$10
2	$12
3	$15
4	$24
5	$40

This firm will shut down
ⓐ and exit if price falls below $5.
ⓑ if price falls below $5 and exit if it falls below $3.33.
ⓒ if price falls below $7 and exit if it falls below $10.
ⓓ if price falls below $3.33 and exit if it falls below $5.

____ 21. An increase in the price of pure chocolate morsels from $2.25 to $2.45 causes Nestle to increase production from 125 bags per minute to 145 bags per minute. We know that the elasticity of supply is
ⓐ inelastic and equal to 1.74.
ⓑ elastic and equal to 1.74.
ⓒ inelastic and equal to 0.57.
ⓓ elastic and equal to 0.57.

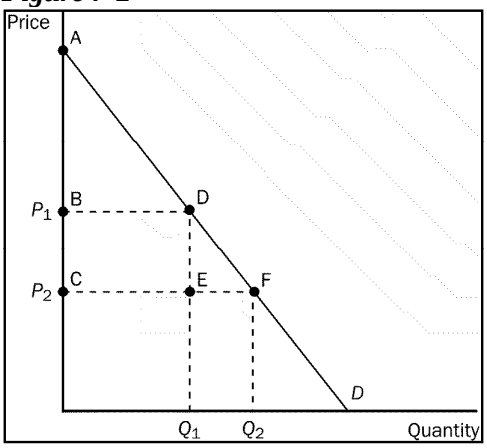
____ 22. If cigarettes and marijuana had been found to be substitutes, a tax placed on cigarettes would
ⓐ decrease the quantity demanded of marijuana.
ⓑ increase the quantity demanded of marijuana.
ⓒ increase the demand for marijuana.
ⓓ decrease the demand for marijuana.

____ 23. A perfectly price-discriminating monopolist is able to
ⓐ exercise illegal preferences regarding the race and/or gender of its employees.
ⓑ maximize profit and produce a socially-optimal level of output.
ⓒ produce a socially-optimal level of output, but not maximize profit.
ⓓ maximize profit, but not produce a socially-optimal level of output.

____ 24. A monopolistically competitive firm is currently making a profit. If other firms enter the market, we would expect that the added competition will cause this firm to adjust its
ⓐ output, but it might move either closer to or further from its efficient scale.
ⓑ output so that it will operate closer to its efficient scale.
ⓒ output so that it will operate further from its efficient scale.
ⓓ output so that it will no longer be at its efficient scale.

____ 25. Suppose that demand increases AND supply decreases. What would happen in the market for the good?
ⓐ Equilibrium price would decrease, but the impact on equilibrium quantity would be ambiguous.
ⓑ Equilibrium price would increase, but the impact on equilibrium quantity would be ambiguous.
ⓒ Both equilibrium price and quantity would decrease.
ⓓ Both equilibrium price and quantity would increase.

Figure 7-2



____ 26. **Refer to Figure 7-2**. Which area represents consumer surplus at a price of P_1?
- ⓐ ACF
- ⓑ BCDE
- ⓒ BCFD
- ⓓ ABD
- ⓔ DEF

____ 27. Variable cost divided by change in quantity produced is
- ⓐ marginal cost.
- ⓑ average variable cost.
- ⓒ average total cost.
- ⓓ None of the above are correct.

____ 28. In the work-leisure model, the income effect of a wage increase is when the worker
- ⓐ is indifferent between working more or less.
- ⓑ wishes to work more.
- ⓒ wishes to work less.
- ⓓ wishes to work more but be less productive.

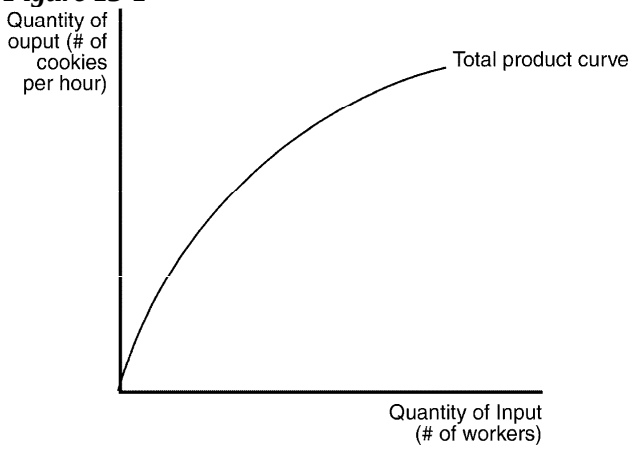
____ 29. When her income increased from $10,000 to $20,000, Heather's consumption of macaroni decreased from 10 pounds to 5 pounds and her consumption of soy-burgers increased from 2 pounds to 4 pounds. We can conclude that for Heather,
- ⓐ macaroni and soy-burgers are both inferior goods with income elasticities equal to -1.
- ⓑ macaroni is an inferior good and soy-burgers are normal goods; both have income elasticities of 1.
- ⓒ macaroni and soy-burgers are both normal goods with income elasticities equal to 1.
- ⓓ macaroni is an inferior good with an income elasticity of -1 and soy-burgers are normal goods with an income elasticity of 1.

Scenario 14-2
Assume a certain firm is producing 1,000 units of output (so Q = 1,000). At Q = 1,000, the firm's marginal cost equals $15 and its average total cost equals $11. The firm sells its output for $12 per unit.

____ 30. **Refer to Scenario 14-2**. At Q = 999, the firm's profit amounts to
ⓐ $1,007.
ⓑ $1,003.
ⓒ $993.
ⓓ $997.

The figure below depicts a production function for a firm that produces cookies. Use the figure to answer the following questions.

Figure 13-1



____ 31. **Refer to Figure 13-1**. As the number of workers increases,
ⓐ total output decreases.
ⓑ marginal product increases at an increasing rate.
ⓒ total output increases, but at a decreasing rate.
ⓓ marginal product increases, but at a decreasing rate.

Each year the United States considers renewal of Most Favored Nation (MFN) trading status with China. Historically, legislators have made threats of not renewing MFN status because of human rights abuses in China. The non renewal of MFN trading status is likely to involve some retaliatory measures by China. The Game below reflects the potential economic gains associated with a two-outcome game in which China may impose trade sanctions against U.S. firms and the United States may not renew MFN status with China. The following table contains the dollar value of all trade flow benefits to the United States and China under two trade-relationship scenarios.

Table 16-4

		China	
		Impose trade sanctions against U.S. firms	Do not impose trade sanctions against U.S. firms
United States	Don't renew MFN status with China	U.S. trade value = $65 b China trade value = $75 b	U.S. trade value = $140 b China trade value = $5 b
	Renew MFN status with China	U.S. trade value = $35 b China trade value = $285 b	U.S. trade value = $130 b China trade value = $275 b

____ 32. **Refer to Table 16-4**. When this game reaches a Nash equilibrium, the value of trade flow benefits will be
ⓐ United States $140 b and China $5 b.
ⓑ United States $65 b and China $75 b.
ⓒ United States $130 b and China $275 b.
ⓓ United States $35 b and China $285 b.

____ 33. Which of the following statements is correct?
ⓐ The main social problem caused by monopoly is monopoly profit.
ⓑ The deadweight loss that arises in monopoly stems from the fact that the profit-maximizing monopoly firm produces a quantity of output that exceeds the socially-efficient quantity.
ⓒ The deadweight loss caused by monopoly is similar to the deadweight loss caused by a tax on a product.
ⓓ The benefits that accrue to a monopoly firm's owners are equal to the costs that are incurred by consumers of that firm's product.

____ 34. Product differentiation in monopolistically competitive markets ensures that, for profit-maximizing firms,
ⓐ price will exceed marginal cost.
ⓑ marginal cost will exceed average revenue.
ⓒ average variable cost will be declining.
ⓓ marginal revenue will equal average total cost.

____ 35. For a certain firm, the 100th unit of output that the firm produces has a marginal revenue of $10 and a marginal cost of $7. It follows that
ⓐ the production of the 100th unit of output increases the firm's average total cost by $7.
ⓑ the production of the 100th unit of output increases the firm's profit by $3.
ⓒ the firm's profit-maximizing level of output is less than 100 units.
ⓓ All of the above are correct.

____ 36. When a factory is operating in the short run,
ⓐ total cost and variable cost are usually the same.
ⓑ average fixed cost rises as output increases.
ⓒ it cannot adjust the quantity of fixed inputs.
ⓓ it cannot alter variable costs.

____ 37. If an increase in the price of a good results in an increase in total revenue for the firm, then the supply of the good must be
ⓐ Nothing can be said about price elasticity of supply from the information given.
ⓑ inelastic.
ⓒ unit elastic.
ⓓ elastic.

____ 38. A tax imposed on a market with an inelastic demand and an elastic supply will cause
ⓐ the tax burden to be equally divided between buyers and sellers.
ⓑ sellers to pay the majority of the tax.
ⓒ the tax burden to be divided, but it cannot be determined how.
ⓓ buyers to pay the majority of the tax.

____ 39. An oligopoly is a market in which
ⓐ the actions of one seller in the market have no impact on the other sellers' profits.
ⓑ firms are price takers.
ⓒ there are only a few sellers, each offering a product similar or identical to the others.
ⓓ All of the above are correct.

____ 40. Suppose that policymakers are considering placing a tax on either of two markets. In Market A, the tax will have a significant effect on the price consumers pay, but it will not affect equilibrium quantity very much. In Market B, the same tax will have only a small effect on the price consumers pay, but it will have a large effect on the equilibrium quantity. In which market will the tax have a larger deadweight loss?
ⓐ Market A
ⓑ Market B
ⓒ Deadweight loss will be the same in both markets.
ⓓ There is not enough information to answer the question.

____ 41. Jonathan is planning ahead for retirement and must decide how much to spend and how much to save while he's working in order to have money to spend when he retires. When the income effect dominates the substitution effect, an increase in the interest rate on savings is likely to
ⓐ have no effect on saving.
ⓑ decrease saving.
ⓒ increase saving.
ⓓ All of the above are correct.

____ 42. When the price of pizza falls, the substitution effect, for normal goods Pepsi and pizza, causes a
ⓐ movement along the indifference curve so the consumer buys less Pepsi.
ⓑ movement along the indifference curve so the consumer buys more Pepsi.
ⓒ shift to a lower indifference curve so the consumer buys more Pepsi.
ⓓ shift to a higher indifference curve so the consumer buys more Pepsi.

____ 43. A competitive market is in long-run equilibrium. If demand decreases, we can be certain that price will
ⓐ fall in the short run. All, some, or no firms will shut down, and some of them will exit the industry. Price will then rise.
ⓑ fall in the short run. No firms will shut down, but some of them will exit the industry. Price will then rise.
ⓒ not fall in the short run because firms will exit to maintain the price.
ⓓ fall in the short run. All firms will shut down and some of them will exit the industry. Price will then rise.

Two discount superstores (Ultimate Saver and SuperDuper Saver) in a growing urban area are interested in expanding their market share. Both are interested in expanding the size of their store and parking lot to accommodate potential growth in their customer base. The following game depicts the strategic outcomes that result from the game. Growth-related profits of the two discount superstores under two scenarios are reflected in the table below.

Table 16-5

		SuperDuper Saver	
		Increase the size of store and parking lot	Do not increase the size of store and parking lot
Ultimate Saver	Increase the size of store and parking lot	SuperDuper Saver = $50 Ultimate Saver = $65	SuperDuper Saver = $25 Ultimate Saver = $275
	Do not increase the size of store and parking lot	SuperDuper Saver = $250 Ultimate Saver = $35	SuperDuper Saver = $85 Ultimate Saver = $135

____ 44. **Refer to Table 16-5**. When this game reaches a Nash equilibrium, the dollar value of growth-related profits will be

ⓐ Ultimate Saver $65 and SuperDuper Saver $50.
ⓑ Ultimate Saver $135 and SuperDuper Saver $85.
ⓒ Ultimate Saver $275 and SuperDuper Saver $25.
ⓓ Ultimate Saver $35 and SuperDuper Saver $250.

____ 45. Competitive firms differ from monopolies in which of the following ways?

(i) Competitive firms do not have to worry about the price effect lowering their total revenue.
(ii) Marginal revenue for a competitive firm equals price, while marginal revenue for a monopoly is less than the price it is able to charge.
(iii) Monopolies must lower their price in order to sell more of their product, while competitive firms do not.

ⓐ (ii) and (iii)
ⓑ (i) and (ii)
ⓒ (i) and (iii)
ⓓ All of the above are correct.

Scenario 8-1

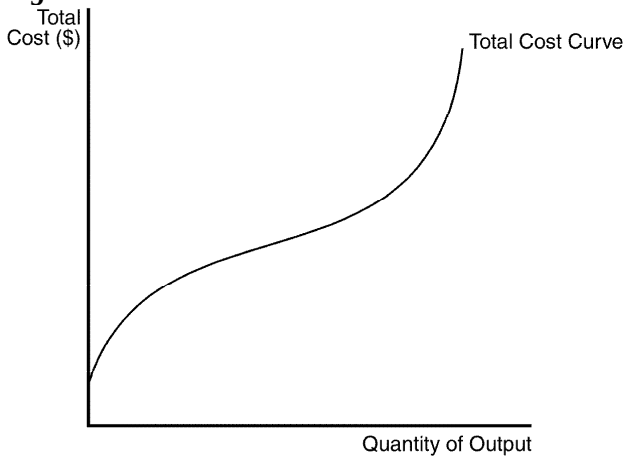
Assume that Tammy cleans Ryan's house weekly for $80. Ryan would be willing to pay as much as $100 weekly to have his house cleaned. Tammy's opportunity cost is $70.

____ 46. **Refer to Scenario 8-1**. Assume that Ryan is required to pay a tax of $40 when he hires someone to clean his house. Which of the following is true?

ⓐ Tammy will continue to clean Ryan's home but her producer surplus will decline.
ⓑ Jane will continue to clean Ryan's home, but consumer surplus will decline.
ⓒ Total economic welfare (consumer surplus plus producer surplus plus tax revenue) will increase.
ⓓ Ryan will now clean his own home.

____ 47. Due to the nature of the patent laws on pharmaceuticals, the market for such drugs
ⓐ always remains a monopolistic market.
ⓑ switches from competitive to monopolistic once the firm's patent runs out.
ⓒ always remains a competitive market.
ⓓ switches from monopolistic to competitive once the firm's patent runs out.

Figure 13-4

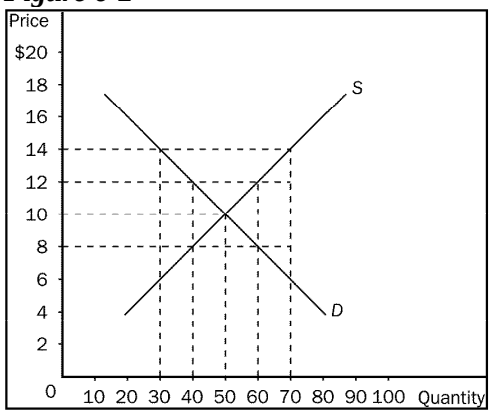


____ 48. **Refer to Figure 13-4**. Which of the following can be inferred from the figure above?
(i) Marginal cost is increasing at all levels of output.
(ii) Marginal product is increasing at low levels of output.
(iii) Marginal product is decreasing at high levels of output.

ⓐ (i) and (iii)
ⓑ (i) and (ii)
ⓒ (ii) and (iii)
ⓓ All of the above are correct.

____ 49. For a typical natural monopoly, average total cost is
ⓐ falling and marginal cost is above average total cost.
ⓑ falling and marginal cost is below average total cost.
ⓒ rising and marginal cost is above average total cost.
ⓓ rising and marginal cost is below average total cost.

Figure 6-2

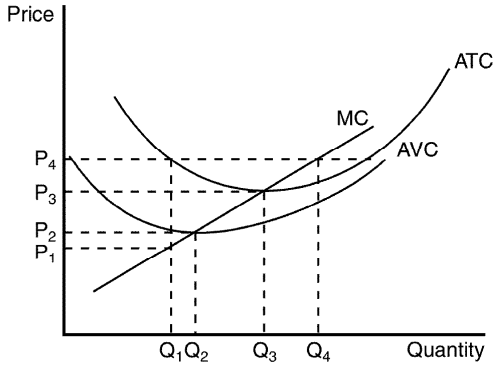


____ 50. **Refer to Figure 6-2**. If the government imposes a binding price floor of $14.00 in this market, the result would be a

ⓐ shortage of 20.
ⓑ surplus of 40.
ⓒ shortage of 40.
ⓓ surplus of 20.

The graph below depicts the cost structure for a firm in a competitive market. Use the graph to answer the following questions.

Figure 14-2



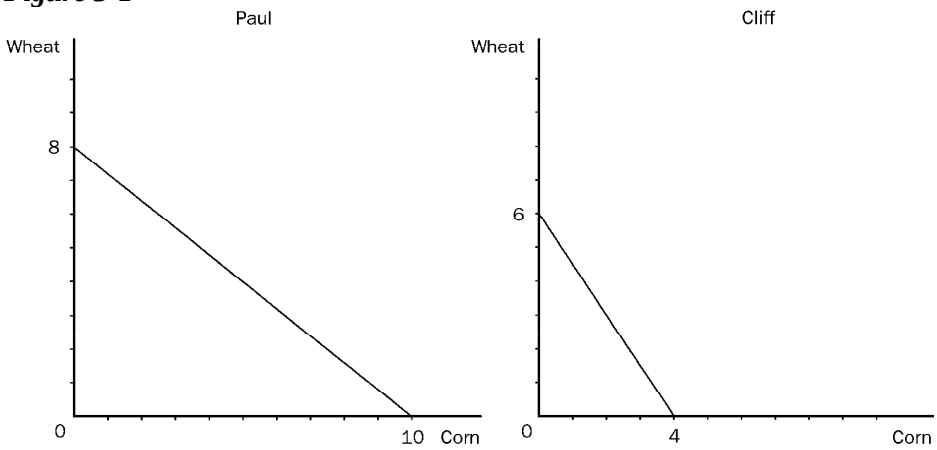
____ 51. **Refer to Figure 14-2**. When price falls from P_3 to P_1, the firm finds that

ⓐ it should produce Q_3 units of output.
ⓑ it should produce Q_1 units of output.
ⓒ it is unwilling to produce any output.
ⓓ fixed cost is higher at a production level of Q_1 than it is at Q_3.

____ 52. If a shortage exists in a market we know that the actual price is

ⓐ above equilibrium price and quantity demanded is greater than quantity supplied.
ⓑ below equilibrium price and quantity demanded is greater than quantity supplied.
ⓒ above equilibrium price and quantity supplied is greater than quantity demanded.
ⓓ below equilibrium price and quantity supplied is greater than quantity demanded.

Figure 3-1



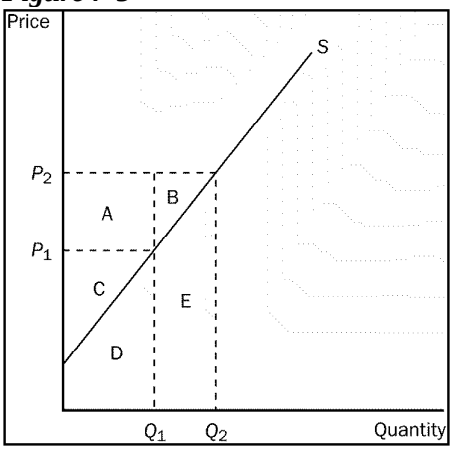
____ 53. **Refer to Figure 3-1**. Assume that Cliff and Paul were both producing wheat and corn, and each were dividing their time equally between the two. Then they decide to specialize in the product they have a comparative advantage in. As a result, total production of corn would
ⓐ decrease by 2 bushels.
ⓑ increase by 5 bushels.
ⓒ increase by 1 bushel.
ⓓ increase by 3 bushels.

____ 54. Moving down a linear demand curve we know that elasticity gets
ⓐ smaller.
ⓑ smaller, then larger.
ⓒ larger.
ⓓ larger, then smaller.

____ 55. Which of the following will definitely cause equilibrium quantity to fall?
ⓐ demand increases and supply decreases
ⓑ demand and supply both increase
ⓒ demand and supply both decrease
ⓓ demand decreases and supply increases

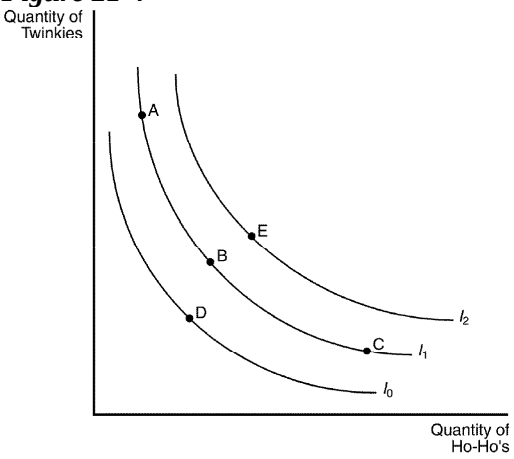
____ 56. If a competitive firm is currently producing a level of output at which marginal cost exceeds marginal revenue, then
ⓐ average revenue exceeds marginal cost.
ⓑ the firm is earning a positive profit.
ⓒ a one-unit decrease in output would increase the firm's profit.
ⓓ All of the above are correct.

Figure 7-5



____ 57. **Refer to Figure 7-5**. When the price is P_2, producer surplus is
ⓐ D + E
ⓑ A + B + C
ⓒ A
ⓓ A + C

Figure 21-4



____ 58. **Refer to Figure 21-4**. Which of the following statements is NOT true for a consumer who moves from point B to point C?
ⓐ The consumer is equally well off.
ⓑ The marginal rate of substitution at points C and B differ.
ⓒ The consumer is willing to sacrifice Twinkies to obtain Ho-Ho's.
ⓓ The consumer is better off since point C is higher than point B.

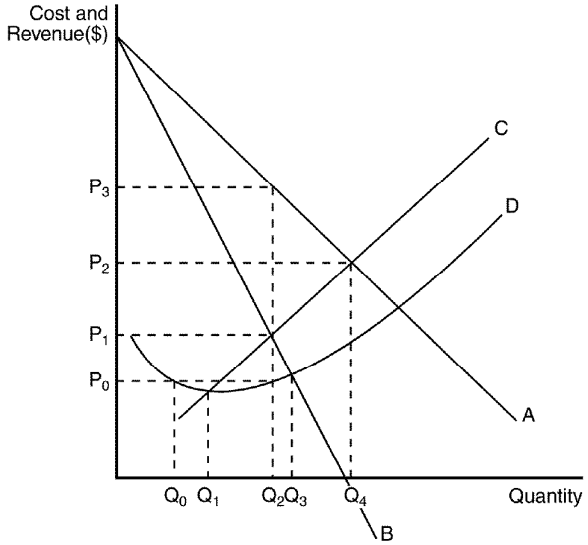
____ 59. The deadweight economic loss from taxes
ⓐ is higher when tax rates are higher than when tax rates are lower.
ⓑ is lower when tax rates are higher than when tax rates are lower.
ⓒ does not depend on the slope of the demand curve.
ⓓ does not depend on tax rates.

____ 60. As elasticity rises
ⓐ quantity supplied responds less to a change in price.
ⓑ elasticity gets closer to zero.
ⓒ the supply curve gets flatter.
ⓓ the supply curve gets steeper.

____ 61. The complete description of a competitive firm's short-run supply curve is as follows: The competitive firm's short-run supply curve is that portion of the marginal cost curve that lies above average
ⓐ total cost.
ⓑ variable cost.
ⓒ revenue.
ⓓ fixed cost.

The figure below reflects the cost and revenue structure for a monopoly firm. Use it to answer the following questions.

Figure 15-3



____ 62. **Refer to Figure 15-3**. Profit on a typical unit sold for a profit-maximizing monopoly would equal
ⓐ $P_3 - P_2$.
ⓑ $P_2 - P_1$.
ⓒ $P_3 - P_0$.
ⓓ $P_2 - P_0$.

____ 63. The substitution effect is
ⓐ a pure change in consumer welfare.
ⓑ a change in consumer welfare and a change in the marginal rate of substitution.
ⓒ a pure change in the marginal rate of substitution.
ⓓ None of the above are correct.

Table 3-1

	Labor Hours Needed to Make 1 Pound of:		Pounds produced in 40 hours:	
	Meat	Potatoes	Meat	Potatoes
Farmer	8	2	5	20
Rancher	4	5	10	8

____ 64. **Refer to Table 3-1**. The Rancher has an absolute advantage in
ⓐ both goods, and the Farmer has a comparative advantage in potatoes.
ⓑ meat, and the Farmer has a comparative advantage in neither good.
ⓒ both goods, and the Farmer has a comparative advantage in meat.
ⓓ meat, and the Farmer has a comparative advantage in potatoes.

____ 65. The average fixed cost curve
ⓐ always declines with increased levels of output.
ⓑ always rises with increased levels of output.
ⓒ declines as long as it is above marginal cost.
ⓓ declines as long as it is below marginal cost.

Two cigarette manufacturers (Firm A and Firm B) are faced with lawsuits from states to recover the health care related expenses associated with cigarette smoking. Both cigarette firms have evidence that indicates that cigarette smoke causes lung cancer (and other related illness). State prosecutors do not have access to the same data used by cigarette manufacturers and thus will have difficulty recovering full costs without the help of at least one cigarette firm study. Each firm has been presented with an opportunity to lower their liability in the suit if they cooperate with attorneys representing the states.

Table 16-3

		Firm A	
		Concede that cigarette smoke causes lung cancer	Argue that there is no evidence that smoke causes cancer
Firm B	Argue that there is no evidence that smoke causes cancer	Firm A losses = $5 b Firm B losses = $50 b	Firm A losses = $10 b Firm B losses = $10 b
	Concede that cigarette smoke causes lung cancer	Firm A losses = $20 b Firm B losses = $15 b	Firm A losses = $50 b Firm B losses = $5 b

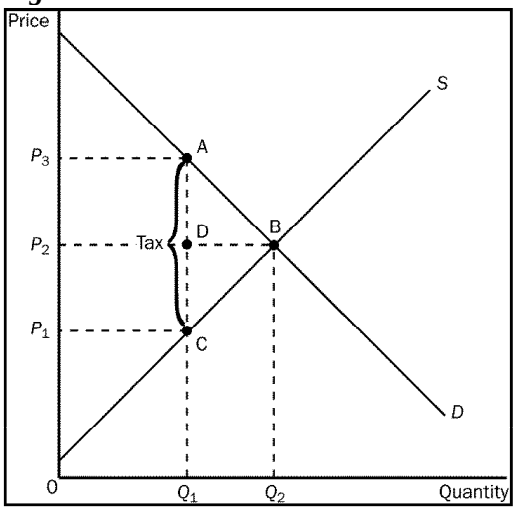
____ 66. **Refer to Table 16-3**. This particular game
ⓐ features a Nash equilibrium where both firms concede that cigarette smoke causes cancer
ⓑ features a dominant strategy equilibrium.
ⓒ is a version of the prisoners' dilemma game.
ⓓ All of the above are correct.

____ 67. **Refer to Table 16-3**. Pursuing its own best interests, Firm A will concede that cigarette smoke causes lung cancer
ⓐ regardless of whether Firm B concedes that cigarette smoke causes lung cancer.
ⓑ only if Firm B does not concede that cigarette smoke causes lung cancer.
ⓒ only if Firm B concedes that cigarette smoke causes lung cancer.
ⓓ none of the above; in pursuing its own best interests, Firm A will in no case concede that cigarette smoke causes lung cancer.

____ 68. A firm will shut down in the short run if the total revenue that it would get from producing and selling its output is less than its
ⓐ opportunity costs.
ⓑ total costs.
ⓒ fixed costs.
ⓓ variable costs.

____ 69. If two supply curves pass through the same point and one is steep and the other is flat, which of the following would be correct?
ⓐ It is impossible to tell the elasticity of supply for either curve unless you are given actual numbers to compute the elasticity of both curves.
ⓑ The steeper supply curve is more inelastic.
ⓒ The elasticity of supply will be the same for both curves.
ⓓ The flatter supply curve is more inelastic.

Figure 8-2



____ 70. **Refer to Figure 8-2**. The per unit burden of the tax on the sellers is
ⓐ $P_2 - P_1$.
ⓑ $Q_2 - Q_1$.
ⓒ $P_3 - P_2$.
ⓓ $P_3 - P_1$.

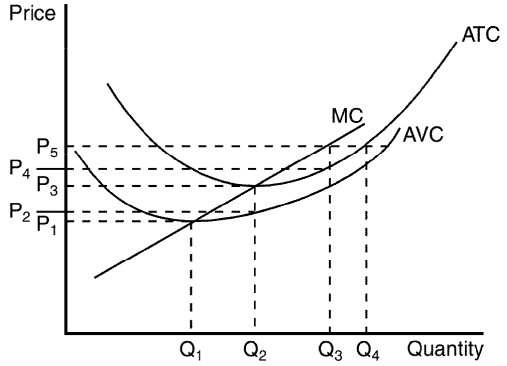
____ 71. A tax on the buyers of coffee will
ⓐ reduce the equilibrium price of coffee, and reduce the equilibrium quantity.
ⓑ increase the equilibrium price of coffee, and reduce the equilibrium quantity.
ⓒ increase the equilibrium price of coffee, and increase the equilibrium quantity.
ⓓ reduce the equilibrium price of coffee, and increase the equilibrium quantity.

____ 72. Suppose that a decrease in the price of X results in less of good Y sold. This would mean that X and Y are
ⓐ inferior goods.
ⓑ normal goods.
ⓒ complementary goods.
ⓓ substitute goods.

____ 73. If a study by the AMA found that brown sugar caused weight loss while white sugar caused weight gain we would see
ⓐ a decrease in the demand for white sugar, but no change in the demand for brown sugar.
ⓑ an increase in demand for brown sugar, but no change in the demand for white sugar.
ⓒ an increase in demand for brown sugar and a decrease in demand for white sugar.
ⓓ no change in either demand because weight loss is not a nonprice determinant of demand.

The figure below depicts the cost structure of a firm in a competitive market. Use the figure to answer the following questions.

Figure 14-5



____ 74. **Refer to Figure 14-5**. When market price is P_2, a profit-maximizing firm's losses can be represented by the area
ⓐ $(P_2 - P_1) \times Q_2$.
ⓑ At a market price of P_2, the firm does not have losses.
ⓒ At a market price of P_2 the firm has losses, but the reference points in the figure don't identify the losses.
ⓓ $(P_3 - P_2) \times Q_2$.

____ 75. Senator Hubris wants to pass a law that would require all monopolistically competitive firms to operate at their efficient scale. If this law were to pass and be enforced, we would expect that monopolistically competitive firms would
ⓐ see their profits increase.
ⓑ not really be affected by the law.
ⓒ break even.
ⓓ lose money.

ECN 104 Final Exam
Answer Section

MULTIPLE CHOICE

1.	ANS:	B	DIF:	Average	REF:	382
2.	ANS:	B	DIF:	Challenging	REF:	471
3.	ANS:	A	DIF:	Average	REF:	162
4.	ANS:	B	DIF:	Average	REF:	357
5.	ANS:	A	DIF:	Challenging	REF:	363
6.	ANS:	A	DIF:	Challenging	REF:	25
7.	ANS:	D	DIF:	Challenging	REF:	363
8.	ANS:	A	DIF:	Challenging	REF:	97
9.	ANS:	C	DIF:	Challenging	REF:	325
10.	ANS:	B	DIF:	Challenging	REF:	283
11.	ANS:	A	DIF:	Average	REF:	283
12.	ANS:	D	DIF:	Challenging	REF:	283
13.	ANS:	D	DIF:	Challenging	REF:	288
14.	ANS:	A	DIF:	Challenging	REF:	95
15.	ANS:	A	DIF:	Challenging	REF:	155
16.	ANS:	C	DIF:	Challenging	REF:	167
17.	ANS:	B	DIF:	Challenging	REF:	150
18.	ANS:	D	DIF:	Average	REF:	382
19.	ANS:	C	DIF:	Challenging	REF:	53
20.	ANS:	D	DIF:	Challenging	REF:	302
21.	ANS:	B	DIF:	Challenging	REF:	103
22.	ANS:	C	DIF:	Challenging	REF:	73
23.	ANS:	B	DIF:	Average	REF:	340
24.	ANS:	C	DIF:	Challenging	REF:	384
25.	ANS:	B	DIF:	Challenging	REF:	82
26.	ANS:	D	DIF:	Average	REF:	143
27.	ANS:	D	DIF:	Average	REF:	279
28.	ANS:	C	DIF:	Challenging	REF:	482
29.	ANS:	D	DIF:	Challenging	REF:	102
30.	ANS:	B	DIF:	Challenging	REF:	307
31.	ANS:	C	DIF:	Average	REF:	278
32.	ANS:	B	DIF:	Average	REF:	359
33.	ANS:	C	DIF:	Challenging	REF:	332
34.	ANS:	A	DIF:	Average	REF:	383
35.	ANS:	B	DIF:	Average	REF:	300
36.	ANS:	C	DIF:	Average	REF:	287
37.	ANS:	A	DIF:	Challenging	REF:	104
38.	ANS:	D	DIF:	Challenging	REF:	163
39.	ANS:	C	DIF:	Average	REF:	352
40.	ANS:	B	DIF:	Challenging	REF:	163

41. ANS: B DIF: Challenging REF: 485
42. ANS: A DIF: Challenging REF: 476
43. ANS: A DIF: Challenging REF: 308
44. ANS: A DIF: Average REF: 359
45. ANS: D DIF: Challenging REF: 322
46. ANS: D DIF: Average REF: 167
47. ANS: D DIF: Average REF: 329
48. ANS: C DIF: Challenging REF: 284
49. ANS: B DIF: Average REF: 321
50. ANS: B DIF: Challenging REF: 122
51. ANS: C DIF: Average REF: 307
52. ANS: B DIF: Challenging REF: 79
53. ANS: D DIF: Challenging REF: 53
54. ANS: A DIF: Average REF: 98
55. ANS: C DIF: Challenging REF: 82
56. ANS: C DIF: Challenging REF: 305
57. ANS: B DIF: Average REF: 148
58. ANS: D DIF: Average REF: 468
59. ANS: A DIF: Average REF: 165
60. ANS: C DIF: Average REF: 104
61. ANS: B DIF: Average REF: 300
62. ANS: C DIF: Average REF: 325
63. ANS: C DIF: Challenging REF: 476
64. ANS: D DIF: Challenging REF: 53
65. ANS: A DIF: Average REF: 283
66. ANS: D DIF: Average REF: 360
67. ANS: A DIF: Average REF: 360
68. ANS: D DIF: Average REF: 302
69. ANS: B DIF: Challenging REF: 104
70. ANS: A DIF: Challenging REF: 162
71. ANS: B DIF: Challenging REF: 127
72. ANS: D DIF: Challenging REF: 71
73. ANS: C DIF: Challenging REF: 70
74. ANS: C DIF: Average REF: 307
75. ANS: D DIF: Challenging REF: 384