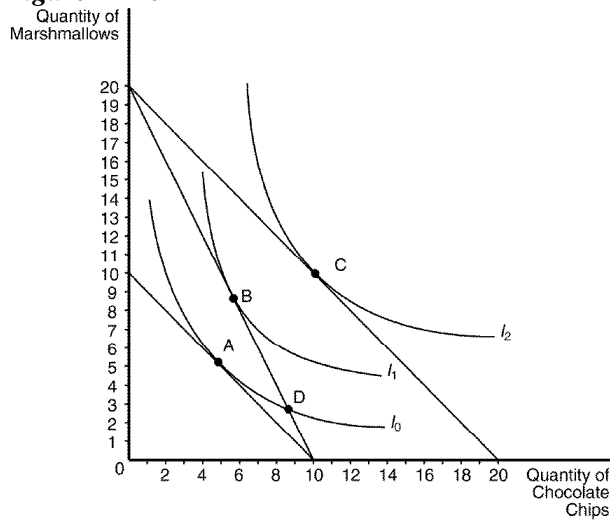


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Multiple Choice

Identify the choice that best completes the statement or answers the question.

- _____ 1. An increase in income will cause a shift in the budget constraint
- outward.
 - towards the good most consumed.
 - inward.
 - towards the good least consumed.
- _____ 2. If the consumption of one good is reduced, how must a consumer alter his consumption of another good in order to remain indifferent between two bundles?
- He must not change his consumption of another good.
 - He can reduce, increase or not change his consumption of another good.
 - He must reduce his consumption of another good.
 - He must increase his consumption of another good.
- _____ 3. What happens to consumer surplus if the price of a good increases?
- It increases.
 - It may increase, decrease, or remain unchanged.
 - It is unchanged.
 - It decreases.
- _____ 4. When the price of pizza falls, the substitution effect, for normal goods Pepsi and pizza, causes
- Pepsi to be relatively less expensive, so the consumer buys less Pepsi.
 - the consumer to feel richer, so the consumer buys more Pepsi.
 - the consumer to feel richer, so the consumer buys less Pepsi.
 - Pepsi to be relatively more expensive, so the consumer buys less Pepsi.
- _____ 5. When, for a firm, long-run average total cost decreases as the quantity of output increases, we have a situation of
- fixed costs greatly exceeding variable costs.
 - coordination problems arising from the large size of the firm.
 - economies of scale.
 - diseconomies of scale.
- _____ 6. The complete description of a competitive firm's supply curve is as follows: The competitive firm's short-run supply curve is that portion of the
- average total cost curve that lies above marginal cost.
 - average variable cost curve that lies above marginal cost.
 - marginal cost curve that lies above average total cost.
 - marginal cost curve that lies above average variable cost.

Figure 21-10

- _____ 7. Refer to Figure 21-10. If point B is the consumer's optimum and the price of Chocolate Chips is \$3 per bag, what is the price of a bag of Marshmallows?
- \$3
 - \$1.50
 - \$6
 - None of the above are correct.

Scenario 15-3

A monopoly firm maximizes its profit by producing 500 units output (so $Q = 500$). At that level of output, its marginal revenue is \$30, its average revenue is \$40, and its average total cost is \$34.

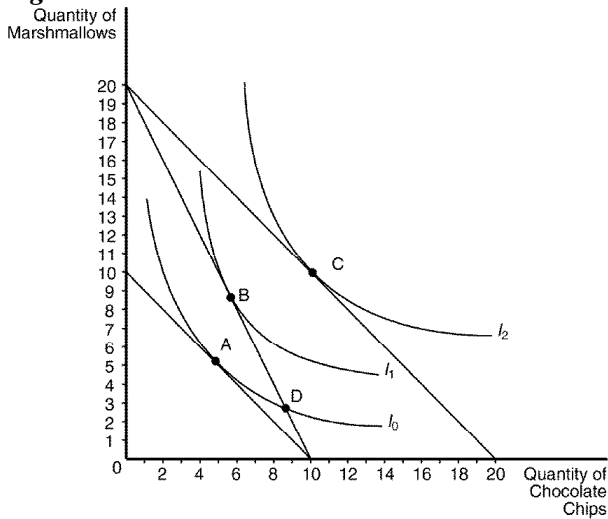
- _____ 8. Refer to Scenario 15-3. The firm's profit-maximizing price is
- \$30.
 - between \$30 and \$34.
 - between \$34 and \$40.
 - \$40.
- _____ 9. In a competitive market,
- the goods offered by the different sellers are markedly different.
 - there is a small number of sellers.
 - no single buyer or seller can influence the price of the product.
 - All of the above are correct.
- _____ 10. When the price of pizza falls, the income effect, for normal goods Pepsi and pizza, causes a
- movement along the indifference curve so the consumer buys more Pepsi.
 - shift to a higher indifference curve so the consumer buys more Pepsi.
 - shift to a lower indifference curve so the consumer buys more Pepsi.
 - movement along the indifference curve so the consumer buys less Pepsi.

- _____ 11. The area below a demand curve and above the price measures
 - a. total surplus.
 - b. producer surplus.
 - c. willingness to pay.
 - d. consumer surplus.

- _____ 12. When a factory is operating in the short run,
 - a. it cannot alter variable costs.
 - b. total cost and variable cost are usually the same.
 - c. average fixed cost rises as output increases.
 - d. it cannot adjust the quantity of fixed inputs.

- _____ 13. When a budget constraint shifts outward
 - a. the consumer can reach a higher indifference curve.
 - b. it could only have been caused by an increase in the price of one of the goods.
 - c. the consumer is indifferent to goods X and Y.
 - d. it could only have been caused by an increase in income.

Figure 21-9

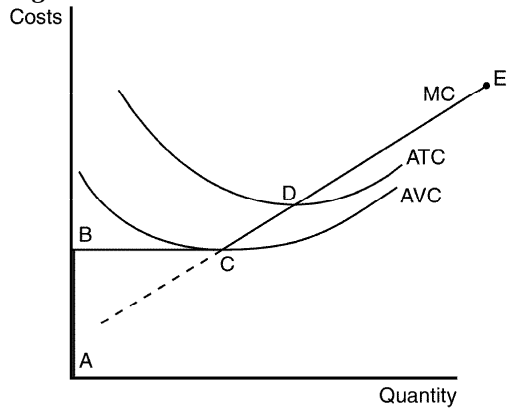


- _____ 14. **Refer to Figure 21-9.** Assume that the consumer depicted in the figure has an income of \$100. Which of the following price-quantity combinations would be on her demand curve for marshmallows if the price of chocolate chips is \$10?
 - a. \$5, 4
 - b. \$2.50, 9
 - c. \$2.50, 4
 - d. \$5, 9

- _____ 15. **Refer to Figure 21-9.** Assume that the consumer depicted in the figure has an income of \$100 and the price of a bag of marshmallows is \$5. The optimizing consumer will choose to purchase which bundle of marshmallows and chocolate chips?
 - a. bundle C
 - b. bundle D
 - c. bundle B
 - d. bundle A

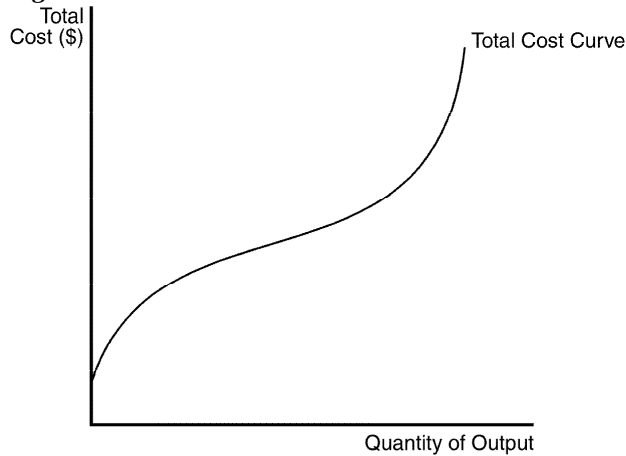
The figure below depicts the cost structure of a profit-maximizing firm in a competitive market. Use the figure to answer the following questions.

Figure 14-3



16. Refer to Figure 14-3. Which line segment best reflects the short-run supply curve for this firm?
- CD
 - DE
 - BCD
 - None of the above are correct.

Figure 13-4



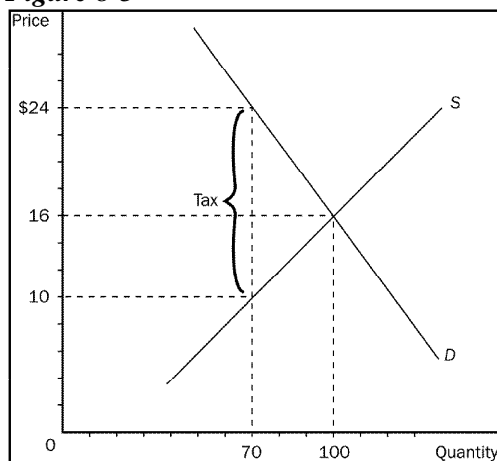
17. Refer to Figure 13-4. Which of the following can be inferred from the figure above?
- Marginal cost is increasing at all levels of output.
 - Marginal product is increasing at low levels of output.
 - Marginal product is decreasing at high levels of output.
- (ii) and (iii)
 - (i) and (iii)
 - (i)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

- _____ 18. Which of the following statements is correct?
- A competitive firm is a price maker and a monopoly is a price taker.
 - Both competitive firms and monopolies are price makers.
 - A competitive firm is a price taker and a monopoly is a price maker.
 - Both competitive firms and monopolies are price takers.

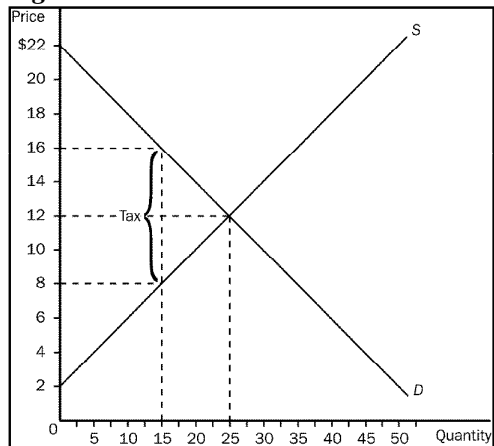
Table 7-3

SELLER	COST
DALE	\$1,500
JILL	\$1,200
DENISE	\$1,000
CATHERINE	\$750
JACKSON	\$500

- _____ 19. Refer to Table 7-3. If the price is \$1,100, who would be willing to supply the product?
- Catherine and Jackson
 - Denise, Catherine and Jackson
 - Dale and Jill
 - Dale, Jill and Denise

Figure 8-3

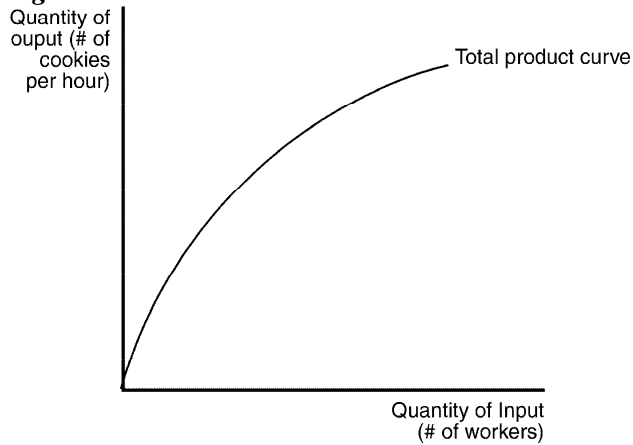
- _____ 20. Refer to Figure 8-3. The amount of deadweight loss as a result of the tax would be equal to
- \$560.
 - \$420.
 - \$210.
 - \$980.
 - \$1,120.

Figure 8-6

- _____ 21. Refer to Figure 8-6. The reduction in consumer surplus caused by the tax would be
- \$80.
 - \$60.
 - \$100.
 - \$70.
- _____ 22. A firm will shut down in the short run if, for all positive levels of output,
- its total revenue is less than its variable costs.
 - the price of its product is less than its average variable cost.
 - its loss exceeds its fixed costs.
 - All of the above are correct.

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

Figure 13-1



- ____ 23. **Refer to Figure 13-1.** With regard to cookie production, the figure implies
- increasing marginal product of workers.
 - decreasing cost of cookie production.
 - diminishing marginal product of workers.
 - diminishing marginal cost of cookie production.
- ____ 24. When firms are neither entering nor exiting a perfectly competitive market,
- average revenue must equal average total cost.
 - total cost must equal total revenue.
 - economic profits must be zero.
 - All of the above are correct.

Table 14-3

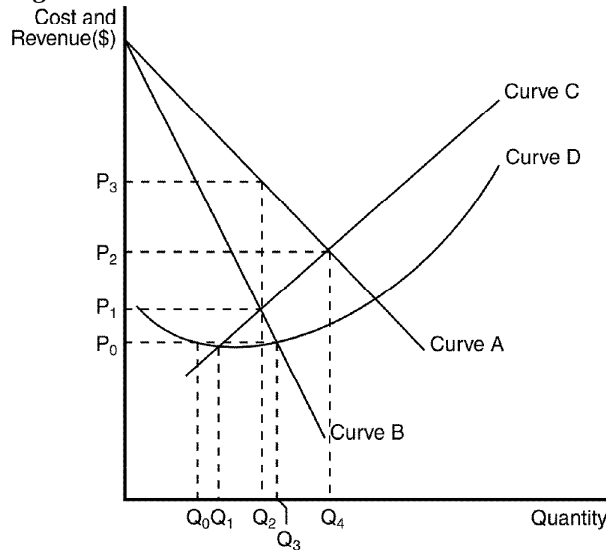
Quantity	Total Revenue	Total Cost
0	\$0	\$4
1	\$20	\$14
2	\$40	\$26
3	\$60	\$40
4	\$80	\$56
5	\$100	\$74
6	\$120	\$94
7	\$140	\$116
8	\$160	\$140
9	\$180	\$166

- _____ 25. **Refer to Table 14-3.** If the firm finds that its marginal cost is \$24, it should
- reduce fixed costs by lowering production.
 - increase production to maximize profit.
 - maintain its current level of production to maximize profit.
 - decrease production to maximize profit.
 - None of the above are correct.
- _____ 26. For a monopolist, profit is determined by which of the following equations?
- Profit = (Price - Average Total Cost) × Quantity
 - Profit = (Average Revenue - Average Total Cost) × Quantity
 - Profit = Total Revenue - Total Cost
 - All of the above are correct.
- _____ 27. Assume that a college student purchases only coffee and Snickers. The substitution effect associated with a decrease in the price of a Snickers bar will result in
- an increase in the consumption of Snickers and a decrease in the consumption of coffee.
 - a decrease in the consumption of Snickers and an increase in the consumption of coffee.
 - an increase in the consumption of coffee only.
 - a decrease in the consumption of coffee only.
- _____ 28. The exit of existing firms from a competitive market will
- decrease market supply and decrease market prices.
 - increase market supply and decrease market prices.
 - decrease market supply and increase market prices.
 - increase market supply and increase market prices.
- _____ 29. In order to sell more of its product, a monopolist must
- use its market power to force up the price of complementary products.
 - lower its price.
 - sell in international markets.
 - keep its price constant.
 - sell to the government.

- ____ 30. When a profit-maximizing firm in a competitive market has zero economic profit, accounting profit
- is also zero.
 - is negative (accounting losses).
 - could be positive, negative or zero.
 - is positive.
- ____ 31. Which of the following must always be true as the quantity of output increases?
- Average variable cost must rise.
 - Marginal cost must rise.
 - Average total cost must rise.
 - Average fixed cost must fall.

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

Figure 15-2



- ____ 32. Refer to Figure 15-2. The average total cost curve for a monopoly firm is depicted by curve
- D
 - A
 - C
 - B
- ____ 33. An optimizing consumer will select the consumption bundle in which the
- ratio of total utilities is equal to the relative price.
 - marginal rate of substitution is equal to the relative price.
 - ratio of income to price equals the marginal rate of substitution.
 - marginal rate of substitution is equal to income.

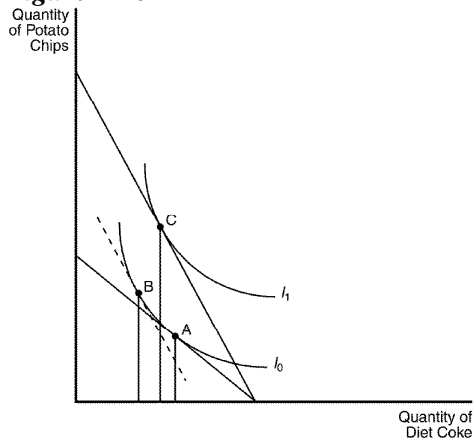
- _____ 34. If a competitive firm is currently producing a level of output at which marginal cost exceeds marginal revenue, then
- the firm is earning a positive profit.
 - average revenue exceeds marginal cost.
 - a one-unit decrease in output would increase the firm's profit.
 - All of the above are correct.
- _____ 35. The profit-maximization problem for a monopolist differs from that of a competitive firm in which of the following ways?
- For a competitive firm, marginal revenue at the profit-maximizing level of output is equal to marginal revenue at all other levels of output; for a monopolist, marginal revenue at the profit-maximizing level of output is smaller than it is for larger levels of output.
 - For a profit-maximizing competitive firm, thinking at the margin is much more important than it is for a profit-maximizing monopolist.
 - A competitive firm maximizes profit at the point where marginal revenue equals marginal cost; a monopolist maximizes profit at the point where marginal revenue exceeds marginal cost.
 - None of the above are correct.

Use the information in the table below to answer the following questions.

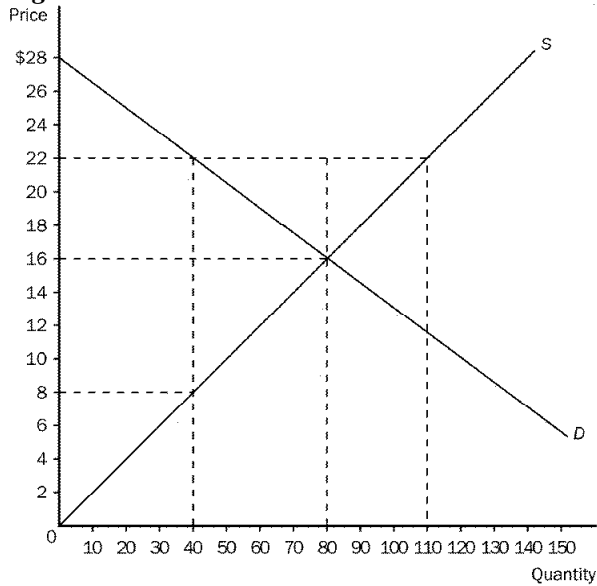
Table 14-1

Quantity	Price
1	14
2	14
3	14
4	14
5	14
6	14
7	14
8	14
9	14

- _____ 36. **Refer to Table 14-1.** Over which range of output is average revenue equal to price?
- 5 to 9
 - 1 to 5
 - 3 to 7
 - Average revenue is equal to price over the whole range of output.
 - None of the above are correct.
- _____ 37. A profit-maximizing firm in a competitive market will always make marginal adjustments to production as long as
- price is above or below marginal cost.
 - average revenue is greater than average total cost.
 - marginal cost is greater than average total cost.
 - its sunk costs are minimal.
 - average revenue is equal to marginal cost.

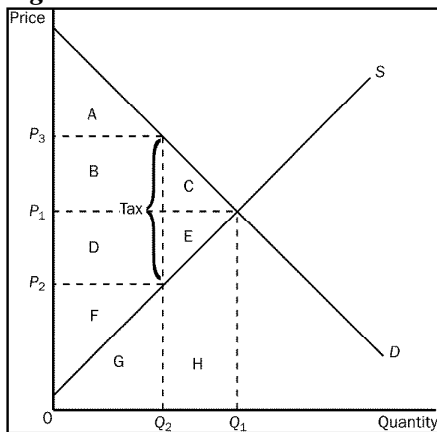
Figure 21-8

- _____ 38. **Refer to Figure 21-8.** If the consumer is currently at point A in the figure, a movement to point B as a result of a decrease in the price of potato chips represents the
- income effect.
 - budget effect.
 - price effect.
 - substitution effect.
- _____ 39. Donald produces nails at a cost of \$200 per ton. If he sells the nails for \$500 per ton, his producer surplus is
- \$200 per ton.
 - \$300 per ton.
 - \$500 per ton.
 - \$700 per ton.

Figure 7-7

- _____ 40. Refer to Figure 7-7. If this market were currently at a quantity of 110, we would know that
- the value to buyers is greater than the cost to sellers.
 - the cost to sellers is greater than the value to buyers.
 - cost to sellers is equal to the value to buyers.
 - producer surplus would be greater than consumer surplus.
- _____ 41. Economic profit is equal to
- total revenue - (explicit costs + implicit costs).
 - total revenue - opportunity costs.
 - accounting profit + implicit costs.
- (ii) and (iii).
 - (i) only
 - (i) and (ii)
 - All of the above are correct.
- _____ 42. A certain firm manufactures and sells computer chips. Last year, it sold 2 million chips at a price of \$10 per chip. For last year, the firm's
- total revenue amounted to \$20 million.
 - explicit costs amounted to \$20 million.
 - accounting profit amounted to \$20 million.
 - economic profit amounted to \$20 million.
- _____ 43. Which of the following expressions is correct for a competitive firm?
- Average revenue = Total revenue/Quantity of output.
 - Marginal revenue = (Change in total revenue)/(Change in quantity of output).
 - Profit = Total revenue - Total cost.
 - All of the above are correct.

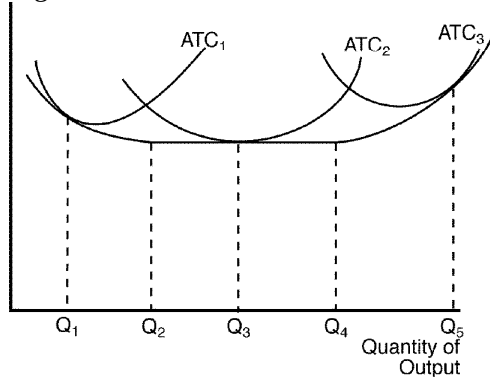
- _____ 44. Total cost can be divided into two types. Those two types are
- fixed costs and marginal costs.
 - variable costs and marginal costs.
 - average costs and marginal costs.
 - fixed costs and variable costs.
- _____ 45. Which of the following is a property of indifference curves?
- Indifference curves cross to explain higher preferences.
 - Indifference curves are downward sloping and always linear.
 - Indifference curves have positive slopes.
 - Indifference curves are bowed in toward the origin.
- _____ 46. A monopolist's profit-maximizing quantity of output is determined by the intersection of the
- marginal revenue curve and the average total cost curve.
 - demand curve and the average total cost curve.
 - demand curve and the marginal cost curve.
 - marginal revenue curve and the marginal cost curve.
- _____ 47. Which of the following expressions is correct?
- total cost = variable cost + marginal cost.
 - average total cost = total cost/quantity of output.
 - marginal cost = (change in quantity of output)/(change in total cost).
 - All of the above are correct.

Figure 8-4

- _____ 48. Refer to Figure 8-4. After the tax is levied on the producer, consumer surplus is represented by area
- D
 - D + E
 - D + E + F
 - A
 - A + B + C

- _____ 49. Refer to Figure 8-4. The loss in total welfare resulting from the levying of the tax on the buyer is represented by area
- A + B + C
 - C + D + E
 - D + E + F
 - C + E
 - A + B + D + F

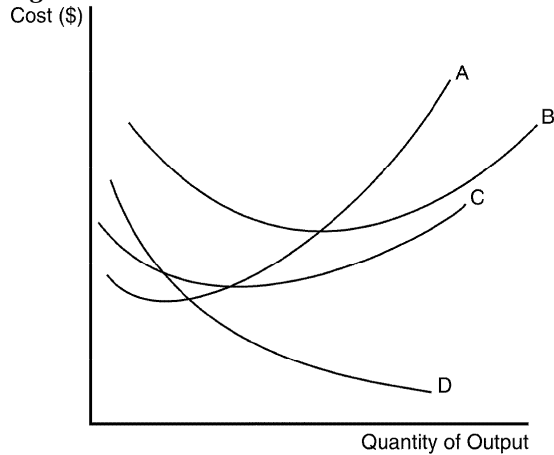
Figure 13-8



- _____ 50. Refer to Figure 13-8. The firm experiences diseconomies of scale if it changes its level of output
- from Q_1 to Q_2 .
 - from Q_4 to Q_5 .
 - from Q_2 to Q_3 .
 - from Q_3 to Q_4 .
- _____ 51. Olga consumes two normal goods, X and Y, and is currently at an optimum. If the price of good X falls, we can predict with certainty that Olga's real income will rise
- and she will therefore consume more of both goods.
 - so she will consume more of good X, but she might consume more, less, or the same of good Y.
 - but the substitution effect will negate the positive effect of the rise.
 - but the substitution effect will insure that she consumes more X and less Y.
- _____ 52. When a monopolist decreases the price of its good, consumers
- buy less.
 - may buy more or less, depending on the price elasticity of demand.
 - buy more.
 - continue to buy the same amount.

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

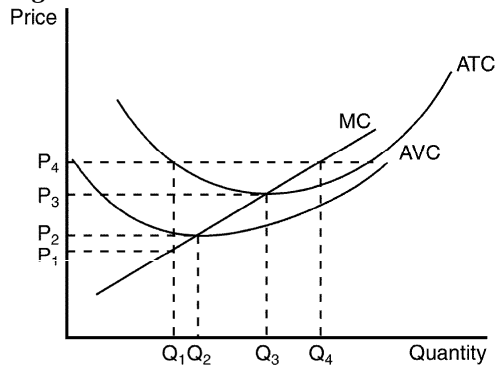
Figure 13-5



- _____ 53. **Refer to Figure 13-5.** This particular firm is necessarily experiencing increasing marginal product when curve
- A is falling.
 - B is falling.
 - D is falling.
 - C is falling.
- _____ 54. When the indifference curve is tangent to the budget constraint,
- income is at its optimum for a consumer.
 - a consumer cannot be made better off without increasing her income.
 - indifference curves are likely to intersect.
 - the consumer is likely to be at a sub-optimal level of consumption.
- _____ 55. In a competitive market that is characterized by free entry and exit,
- the number of sellers in the market will steadily decrease over time.
 - all firms will operate at efficient scale in the long run.
 - all firms will operate at efficient scale in the short run.
 - the price of the product will differ across firms.
- _____ 56. The marginal rate of substitution is
- always constant.
 - the point at which the budget constraint and the indifference curve is tangent.
 - the slope of an indifference curve.
 - the slope of a budget constraint.
- _____ 57. A monopolist will choose to increase output when
- market price increases.
 - at all levels of output, marginal cost increases.
 - at the present level of output, marginal revenue exceeds marginal cost.
 - at the present level of output, marginal revenue is less than marginal cost.
 - None of the above are correct.

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



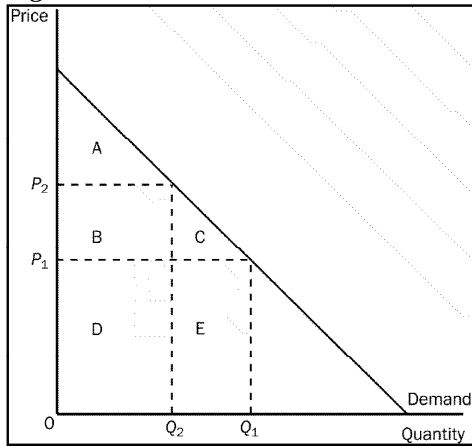
58. Refer to Figure 14-2. Which of the following statements best reflects the situation faced by the firm when price falls from P_4 to P_2 ?
- Average total cost is lower than at the previous level of output so it increases production.
 - The firm will earn profit equal to $(P_4 - P_2) \times Q_2$.
 - Marginal revenue is higher than marginal cost at the previous level of output, so it increases production.
 - Marginal revenue is lower than marginal cost at the previous level of output, so it decreases production.

Scenario 8-2

Sheila offers to do Heidi's housework for \$20 per week. Heidi's opportunity cost of doing housework is \$30 per week, and Sheila's opportunity cost of doing housework is \$10 per week.

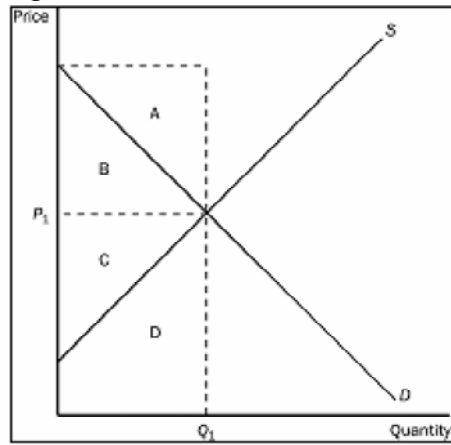
59. Refer to Scenario 8-2. What will be Sheila's gain in producer surplus as a result of the proposed transaction?
- Sheila will gain \$20 per week.
 - Sheila will gain \$10 per week.
 - Sheila will gain \$30 per week.
 - Sheila will gain no producer surplus.
60. In a market that allows free entry and exit, the process of entry and exit ends when, for the typical firm in the market,
- profit is zero.
 - total revenue is equal to average total cost.
 - average revenue exceeds marginal cost.
 - All of the above are correct.

Figure 7-1



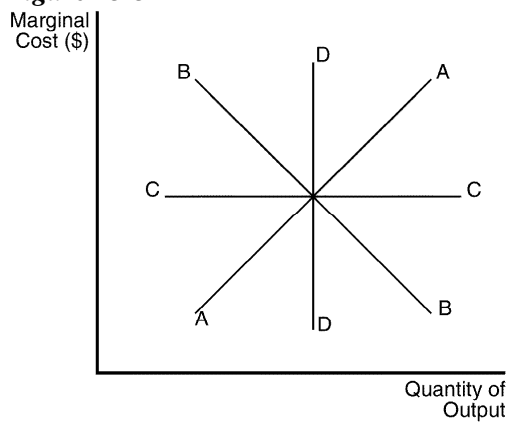
- _____ 61. Refer to Figure 7-1. At the price of P_2 , consumer surplus is
- $A + B$
 - B
 - $A + B + C$
 - $A + B + C + D + E$
 - A

Figure 7-4



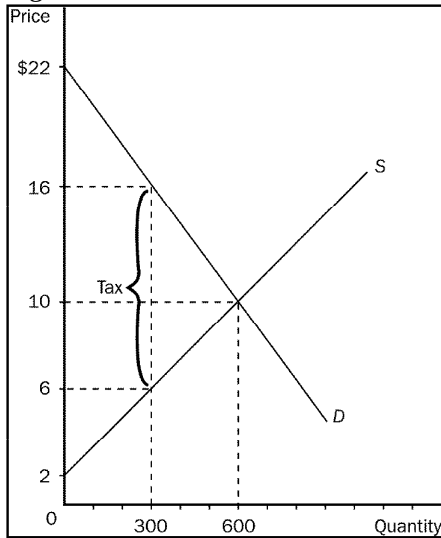
- _____ 62. Refer to Figure 7-4. What area represents producer surplus when the price is P_1 ?
- C
 - D
 - B
 - A

- _____ 63. If goods X and Y are perfect complements, then if the price of good Y falls, changes in the amount of goods X and Y purchased are due
- to both the income and substitution effects
 - strictly to the income effect.
 - strictly to the substitution effect.
 - strictly to the complement effect.
- _____ 64. For a profit-maximizing monopolist,
- $P = MR = MC$.
 - $P > MR = MC$.
 - $MR < MC < P$.
 - $P > MR > MC$.

Figure 13-3

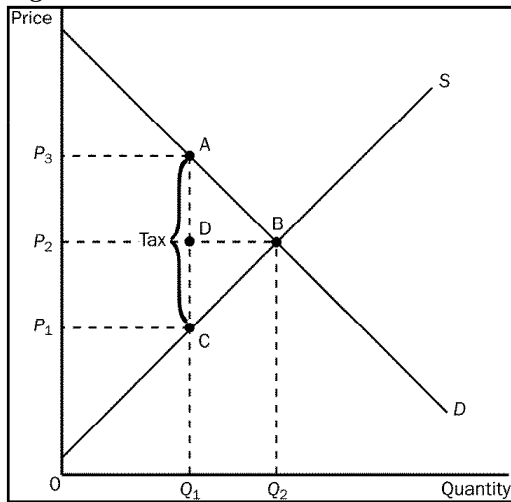
- _____ 65. **Refer to Figure 13-3.** Which of the above marginal cost curves reflects the existence of diminishing marginal product?
- B
 - D
 - A
 - C

Figure 8-5



66. Refer to Figure 8-5. What would happen to consumer surplus if the tax were imposed on the buyer?
- It would fall by \$900.
 - It would fall by \$1800.
 - It would fall by \$2700.
 - It would fall by \$3600.
 - None of the above are correct.

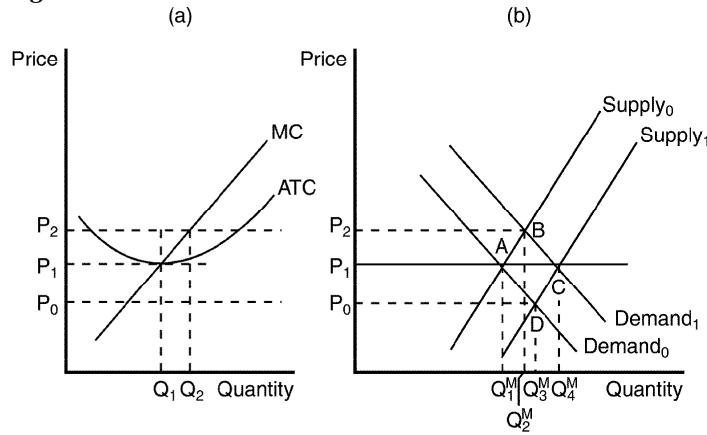
Figure 8-2



67. Refer to Figure 8-2. The per unit burden of the tax on the sellers is
- $P_3 - P_2$.
 - $Q_2 - Q_1$.
 - $P_2 - P_1$.
 - $P_3 - P_1$.

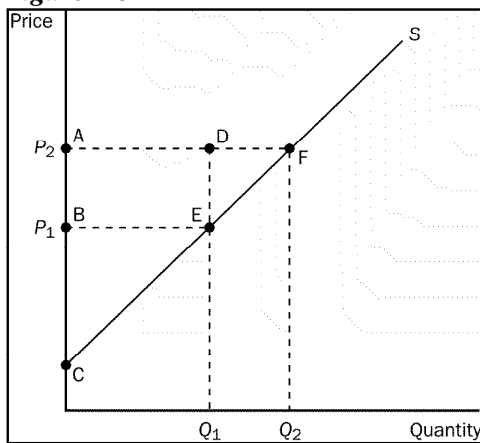
Use the figures below to answer the following questions.

Figure 14-9



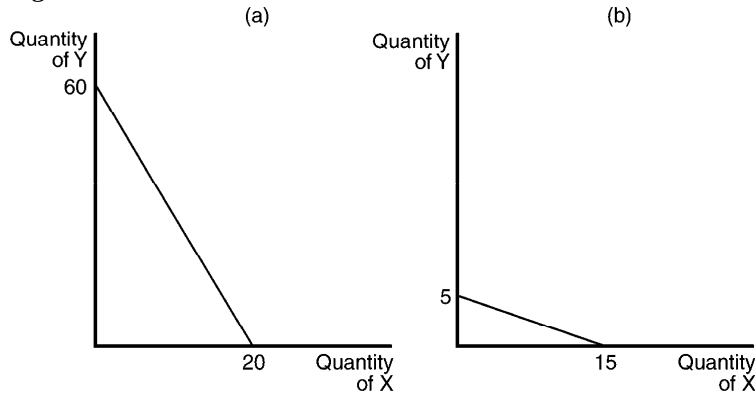
68. Refer to Figure 14-9. If the market starts in equilibrium at point C in panel (b), a decrease in demand will ultimately lead to
- more firms in the industry, but lower levels of production for each firm.
 - a new long-run equilibrium at point D in panel (b).
 - fewer firms in the market.
 - None of the above are correct.

Figure 7-3



69. Refer to Figure 7-3. When the price rises from P_1 to P_2 , which area represents the increase in producer surplus to existing producers?
- ACF
 - AFEB
 - DEF
 - BCE
 - ABED

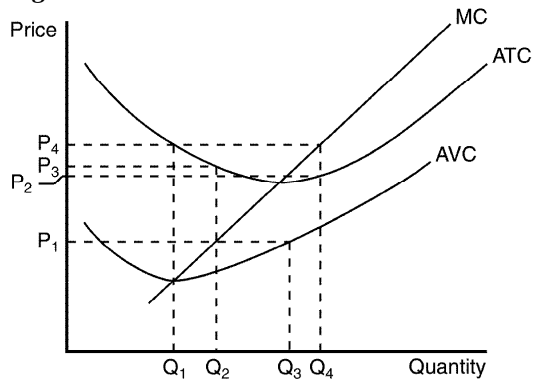
- _____ 70. Denise values a stainless steel dishwasher for her new house at \$500. The actual price of the dishwasher is \$650. Denise
- does not buy the dishwasher because her willingness to pay is less than the price.
 - buys the dishwasher and receives a consumer surplus of \$150.
 - buys the dishwasher and receives a consumer surplus of \$500.
 - does not buy the dishwasher because her willingness to pay is greater than the price.

Figure 21-3

- _____ 71. **Refer to Figure 21-3.** In graph (b), if income is equal to \$240, the price of good Y is
- \$46.
 - \$44.
 - \$50.
 - \$48.
 - \$42.
- _____ 72. What is the monopolist's profit under the following conditions? The profit-maximizing price charged for goods produced is \$12. The intersection of the demand curve and the marginal cost curve occurs where output is 15 units and marginal cost is \$6.
- \$90
 - Not enough information is given to determine the answer.
 - \$100
 - \$180

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

Figure 14-6



- ___ 73. Refer to Figure 14-6. When market price is P_1 , a profit-maximizing firm's total profit or loss can be represented by which area?
- $(P_2 - P_1) \times Q_1$; loss
 - $(P_3 - P_1) \times Q_2$; loss
 - $P_1 \times Q_3$; profit
 - We can't tell because we don't know fixed costs.
- ___ 74. In a market with 1,000 identical firms, the short-run market supply is the
- marginal cost curve (above average variable cost) for a typical firm in the market.
 - sum of the prices charged by each of the 1,000 individual firms.
 - quantity supplied by the typical firm in the market.
 - sum of the quantities supplied by each of the 1,000 individual firms.
- ___ 75. Firms that shut down in the short run still have to pay their
- total cost.
 - avoidable cost.
 - variable costs.
 - fixed costs.
 - All of the above are correct.