

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

- 1) Toronto has a large number of retail stores that sell clothes. Each store has its own characteristics which differ from the other stores. The clothing business in Toronto is an example of
- A) an oligopoly.
 - B) a perfectly competitive market.
 - C) a monopolistically competitive market.
 - D) a duopoly.
 - E) a monopoly.

Use the figure below to answer the following questions.

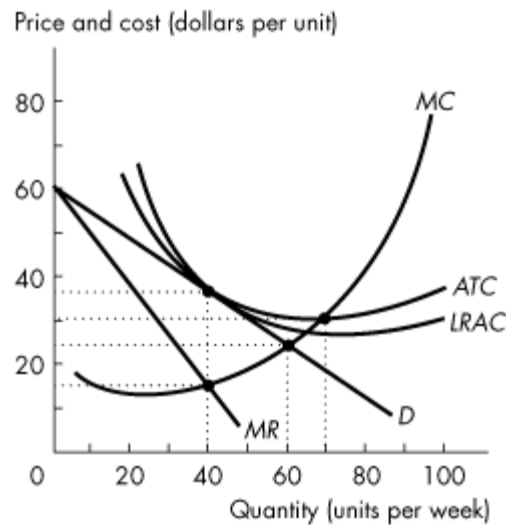


Figure 1

- 2) Refer to Figure 1. To maximize economic profit, this firm in monopolistic competition will charge a price of
- A) \$15 a unit.
 - B) \$32 a unit.
 - C) \$35 a unit.
 - D) \$25 a unit.
 - E) \$20 a unit.

- 3) Refer to Figure 1. To maximize economic profit, this firm in monopolistic competition produces an output
- A) of 60 units.
 - B) that cannot be determined without information concerning rival firms.
 - C) of 40 units.
 - D) of less than 40 units.
 - E) of 70 units.
- 4) If a firm spends \$600 on advertising, its
- A) *ATC* curve shifts upward and its *MC* curve does not shift.
 - B) *MC* curve shifts upward and its *ATC* curve does not shift.
 - C) *AFC* and *AVC* curves shift upward.
 - D) *ATC* and *MC* curves shift upward.
 - E) *ATC* curve shifts upward and its *MC* curve shifts downward.
- 5) Which is *not* a characteristic of oligopoly?
- A) Firms are profit-maximizers.
 - B) Firms set prices.
 - C) Each firm faces a downward-sloping demand curve.
 - D) The sales of one firm will not have a significant effect on other firms.
 - E) There is more than one firm in the industry.
- 6) For a cartel to succeed,
- A) consumers must have alternative products available to satisfy the same need.
 - B) it does not need the cooperation of a majority of firms in the industry.
 - C) the industry must have an elastic demand.
 - D) there must be free entry of rival firms.
 - E) no major producer can remain outside the agreement of the cartel.

Use the figure below to answer the following question.

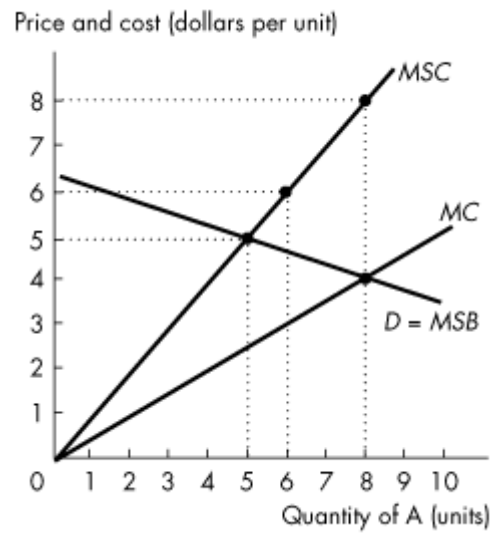


Figure 2

- 7) Refer to Figure 2. This figure shows the demand curve, the marginal private cost curve and the marginal social cost curve of good A. What is the efficient quantity of good A?
- A) 0 units
 - B) 8 units
 - C) 6 units
 - D) 5 units
 - E) impossible to determine without additional information

Use the figure below to answer the following question.

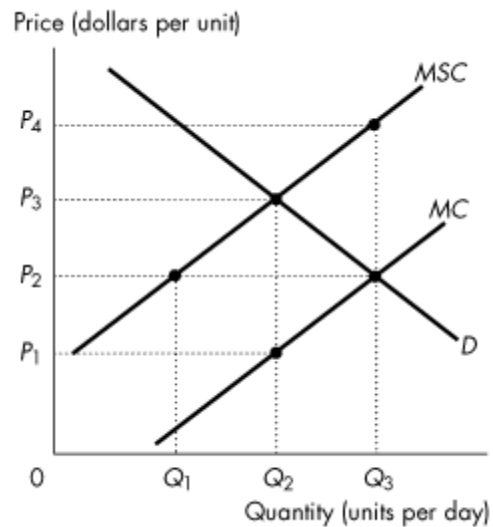


Figure 3

- 8) Refer to Figure 3. The figure shows the private marginal cost curve, the social marginal cost curve and the market demand curve. If a constant per unit tax is imposed that generates an efficient allocation of resources, then the quantity produced is
- A) zero.
 - B) greater than Q_3 .
 - C) Q_1 .
 - D) Q_3 .
 - E) Q_2 .
- 9) When the production of a good has an external cost, the
- A) marginal social benefit curve lies above the marginal private benefit curve.
 - B) marginal social cost curve lies below the marginal private cost curve.
 - C) equilibrium quantity in an unregulated, competitive market has a marginal social cost less than the marginal social benefit.
 - D) equilibrium quantity in an unregulated, competitive market has a marginal social cost greater than the marginal social benefit.
 - E) none of the above.

Use the figure below to answer the following questions.

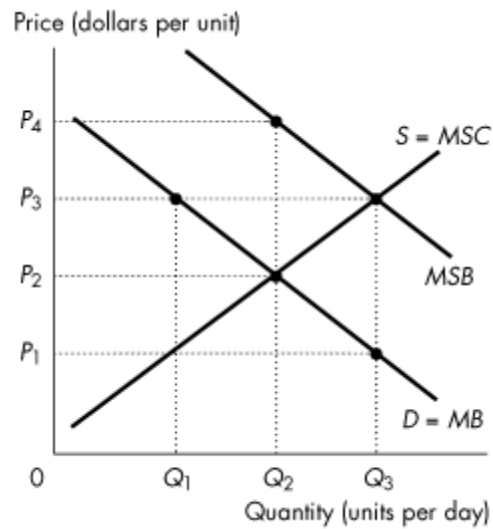


Figure 4

- 10) Refer to Figure 4. The figure shows the marginal private benefit curve, the marginal social benefit curve, and the market supply curve. If production is left to the private market, then the quantity produced is
- A) zero.
 - B) Q_1 .
 - C) Q_3 .
 - D) Q_2 .
 - E) between 0 and Q_1 .
- 11) Refer to Figure 4. The figure shows the marginal private benefit curve, the marginal social benefit curve, and the market supply curve. If a subsidy is granted that generates an efficient quantity, then quantity produced is
- A) Q_1 .
 - B) Q_3 .
 - C) zero.
 - D) Q_2 .
 - E) greater than Q_3 .
- 12) Private goods are
- A) rival and excludable.
 - B) rival and nonexcludable.
 - C) always produced in a non-regulated market.
 - D) nonrival and nonexcludable.
 - E) nonrival and excludable.

- 13) A natural monopoly is
- A) nonrival.
 - B) excludable.
 - C) rival.
 - D) nonexcludable.
 - E) both A and B.
- 14) When a city street is congested, it is
- A) nonrival and nonexcludable.
 - B) a public good.
 - C) a common resource.
 - D) nonrival and excludable.
 - E) a private good.
- 15) Suppose in a country there are only two persons. Person *A* is willing to pay \$50 to have one unit of a public good produced; person *B* is willing to pay \$60 to have one unit of a public good produced and \$50 to have two units produced. A point on the country's marginal social benefit curve for this public good is a price of _____ and quantity demanded of _____.
- A) \$60; 1 unit
 - B) \$55; 1 unit
 - C) \$50; 1 unit
 - D) \$110; 1 unit
 - E) \$110; 2 units
- 16) The "tragedy of the commons" refers to
- A) the absence of incentives to prevent the overuse of a common resource that arises when its users have no incentive to conserve it and use it sustainably.
 - B) the acceptance of deplorable working conditions by those who lack the human capital to obtain a better job.
 - C) the tendency for bureaucrats to maximize their budget.
 - D) the inability of lower income groups to achieve a higher level of education.
 - E) farmers who allow their livestock to overgraze their fields.
- 17) The value of marginal product of labour is the revenue
- A) generated by selling an additional unit of output.
 - B) generated to cover the cost of hiring an extra unit of labour.
 - C) generated by the employment of an additional unit of labour.
 - D) needed to cover the cost of producing an additional unit of output.
 - E) needed to hire an additional unit of labour.

Use the table below to answer the following question.

Table 1

Labour (workers)	Output (units)
0	0
1	5
2	11
3	18
4	26
5	32
6	37
7	41
8	44
9	46
10	47

- 18) Refer to Table 1. If the firm can sell all the output it wants for the price of \$4 a unit, what is the profit-maximizing number of workers if the wage rate is \$12?
- A) 10
 - B) zero
 - C) 4
 - D) 6
 - E) 8
- 19) A decrease in the price of factors of production that are substitutes for labour shifts the labour
- A) supply curve leftward.
 - B) demand curve leftward.
 - C) demand curve rightward.
 - D) supply curve rightward.
 - E) B and D.
- 20) A decrease in the price of a firm's output
- A) increases the value of marginal product of labour.
 - B) decreases the value of marginal product of labour.
 - C) decreases the supply of labour.
 - D) decreases the quantity of labour demanded.
 - E) increases the supply of labour.

- 21) As the wage rate rises, a household will have a backward-bending supply of labour curve if
- A) leisure is an inferior good.
 - B) the substitution effect dominates the income effect.
 - C) the income effect dominates the substitution effect.
 - D) the income effect reinforces the substitution effect.
 - E) the wage rate rises above the reservation wage.
- 22) In the short run, the market supply of land is
- A) relatively elastic.
 - B) either elastic or inelastic depending on the productivity of the land.
 - C) perfectly elastic.
 - D) perfectly inelastic.
 - E) relatively inelastic.
- 23) The Hotelling Principle is the idea that the price of a _____ is expected to rise at a rate equal to the _____.
- A) nonrenewable natural resource; inflation rate
 - B) nonrenewable natural resource; percentage increase in demand
 - C) unit of capital; inflation rate
 - D) unit of capital; interest rate
 - E) nonrenewable natural resource; interest rate
- 24) The value of marginal product of oil is the _____ influence on demand. The greater the quantity of oil used, the _____ is the value of marginal product of oil.
- A) fundamental; smaller
 - B) fundamental; greater
 - C) speculative; smaller
 - D) speculative; greater
 - E) none of the above

Use the information below to answer the following question.

Fact 1

The Burning Belly Taco Stand is considering buying some new special ovens. Each oven will cost \$1,000, and will last for 2 years before it wears out. The ovens will be used to make the Taco Stand's famous "Burning Ring of Fire" tacos, and will generate a value of marginal product of \$600 for the first oven, \$570 for the second oven, and \$530 for the third oven. (Assume all revenues are earned at the end of the year.)

- 25) Refer to Fact 1. If the rate of interest is 5 percent, how many ovens will the Burning Belly Taco Stand buy?
- A) 3
 - B) zero
 - C) 1
 - D) 2
 - E) insufficient information to answer

Answer Key

Testname: PRACTICEFINALDEC13

- 1) C
- 2) C
- 3) C
- 4) A
- 5) D
- 6) E
- 7) D
- 8) E
- 9) D
- 10) D
- 11) B
- 12) A
- 13) E
- 14) C
- 15) D
- 16) A
- 17) C
- 18) E
- 19) B
- 20) B
- 21) C
- 22) D
- 23) E
- 24) A
- 25) D