Exam

Name_____

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

1) Which of the following statements provides the best definition of *economics*? 1) _____
A) The study of the productive capacity of a nation's factors of production.
B) The study of the most equitable distribution of scarce resources.
C) The study of the production of goods and services.
D) The study of production and increasing its efficiency.
E) The study of the use of scarce resources to satisfy unlimited human wants.

2) Because resources are scarce, individuals are required to 2) _____
A) improve production but not distribution.
B) use resources inefficiently.
C) improve distribution but not production.
D) make choices among alternatives.
E) sacrifice production but not consumption.

With a budget of $500 000, a school board can choose to purchase 20 000 textbooks or 2000 laptop computers (or some intermediate combination) for use in classrooms.

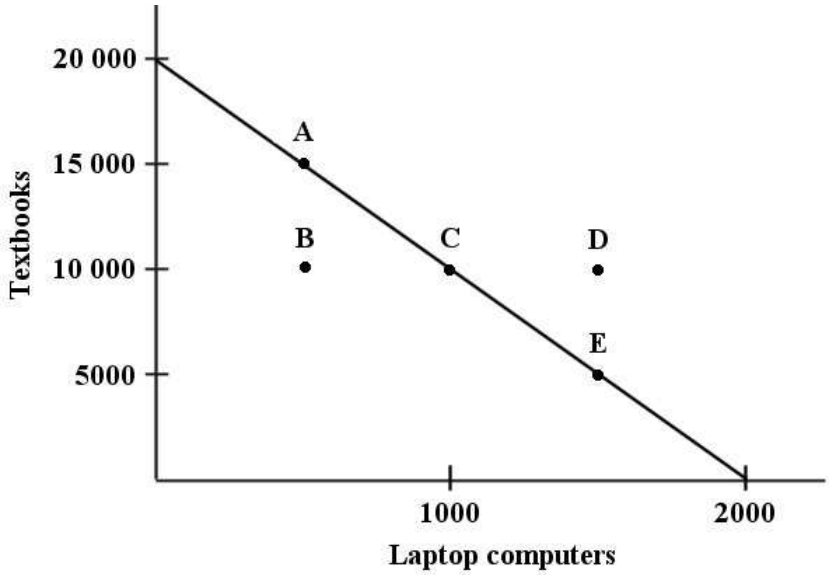

Figure 1-2

3) Refer to Figure 1-2. For the school board, what is the opportunity cost of one additional laptop computer? 3) _____
A) 0 textbooks
B) 1/10 of a textbook
C) 10 textbooks
D) 20 textbooks
E) 2000 textbooks

4) Disagreements over positive statements 4) _____
A) are basically devoid of any emotion.
B) arise from the failure to distinguish between a positive and a normative statement.
C) never occur.
D) cannot arise because positive statements are facts.
E) are best handled by an appeal to the facts.

5) Which of the following is a normative statement? 5) _____
A) Queen Elizabeth II is the wealthiest woman in the world.
B) An increase in the price of lumber is followed by a decrease in the construction of new houses.
C) The sun rises in the west and sets in the east.
D) A government deficit will reduce unemployment and cause an increase in prices.
E) Reducing unemployment is more important than reducing inflation.

6) The time period to which quantity demanded refers when constructing demand curves is 6) _____
A) a moment in time.
B) a period shorter than one year.
C) any specified time period.
D) one year.
E) a long period of time.

7) A normal good is one 7) _____
A) for which demand does not vary with household income.
B) for which demand varies directly with household income.
C) for which demand varies inversely with household income.
D) that normal people consume.
E) that everyone normally consumes.

8) Consider cars and gasoline. Other things being equal, when the price of cars decreases, the demand for gasoline is likely to 8) _____
A) remain unchanged.
B) remain unchanged because cars and gasoline are produced independently of one another.
C) remain unchanged because cars and gasoline are two distinct markets.
D) decrease because the two goods are complements.
E) increase because the two goods are complements.

9) Suppose there is a decrease in the quantity supplied of copper at each price. This change would imply 9) _____
A) a movement down the supply curve.
B) a shift to the right of the supply curve.
C) a movement up the supply curve.
D) a shift to the left of the supply curve.

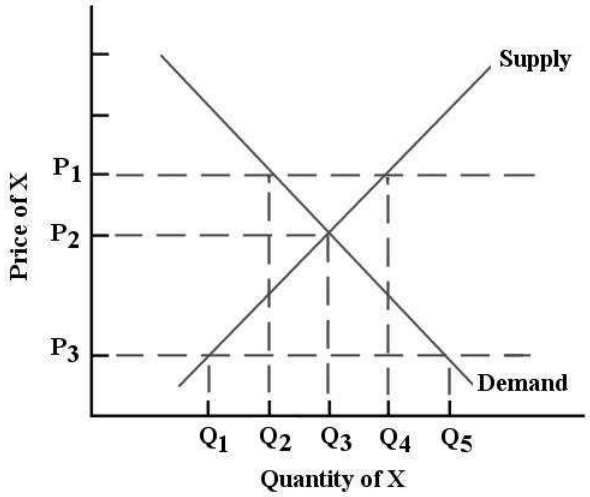

FIGURE 3–3

10) Refer to Figure 3–3. At a price of P_1 there would be excess supply equal to 10) _____
A) 0. B) Q_1 Q_5. C) Q_2 Q_4. D) Q_4 Q_5. E) Q_1 Q_2.

11) When the percentage change in quantity demanded is greater than the percentage change in price that brought it about, demand is said to be 11) _____
A) unit elastic.
B) zero elastic.
C) elastic.
D) unelastic.
E) inelastic.

The table below shows the demand schedule for museum admissions in a small city.

Price (per visit per person)	Quantity Demanded (thousands of person–visits per year)
$10	2
$8	4
$6	6
$4	8
$2	10

TABLE 4–1

12) Refer to Table 4–1. The elasticity of demand for museum admissions is 12) _____
A) elastic at all points on the demand curve.
B) inelastic at all points on the demand curve.
C) constant at all points on the demand curve.
D) greater at higher prices than at lower prices.
E) greater at lower prices than at higher prices.

13) With a downward–sloping straight–line demand curve, price elasticity of demand is 13) _____
A) rising continuously with price increases.
B) constant everywhere on it.
C) decreasing continuously with price increases.
D) increasing to the midpoint of the curve and then decreasing.
E) indeterminate.

14) Suppose you are advising the government on changes in the gasoline market. The current price is $1.00 per litre and the quantity demanded is 2.5 million litres per day. Short–run price elasticity of demand is constant at 0.3. If the supply of gasoline is reduced so that the price rises to $1.50 per litre, then quantity demanded is predicted to fall in the short run by 14) _____
A) 50%, and total expenditure will fall.
B) 12%, and total expenditure will rise.
C) 15%, and total expenditure will rise.
D) 13.3%, and total expenditure will rise.
E) 15%, and total expenditure will fall.

15) The imposition of an excise tax will cause the least burden on consumers when demand is 15) _____
A) perfectly inelastic.
B) unit elastic.
C) vertical.
D) elastic.
E) perfectly elastic.

16) Suppose the free–market equilibrium price for ice time at privately operated hockey arenas is $250 per hour. If the municipal government imposes a price ceiling of $130 per hour, we can expect to see 16) _____
A) an excess supply of ice time.
B) an excess demand for ice time.
C) an adjustment of the free–market equilibrium price to $100.
D) a black market price below the free–market equilibrium price.
E) that neither excess supply nor excess demand is created.

17) With respect to some commodity, X, if government objectives are to (1) restrict production and (2) keep prices down to protect consumers, then legislated price ceilings will 17) _____
A) satisfy only the second goal if a black market develops.
B) be a dismal failure as neither goal can ever be achieved with price ceilings.
C) satisfy both goals as long as a black market does not develop.
D) satisfy both goals but only if a black market develops.
E) only have an effect on commodities at the international level.

18) If the equilibrium price for some product is $1000, a price ceiling of $800 will result in 18) _____
A) massive surpluses of the good.
B) the same general effects as a price ceiling of $600.
C) the same general effects as a price floor of $1200.
D) the same general effects as a price ceiling of $1200.
E) no effects because the price ceiling is not binding at that price.

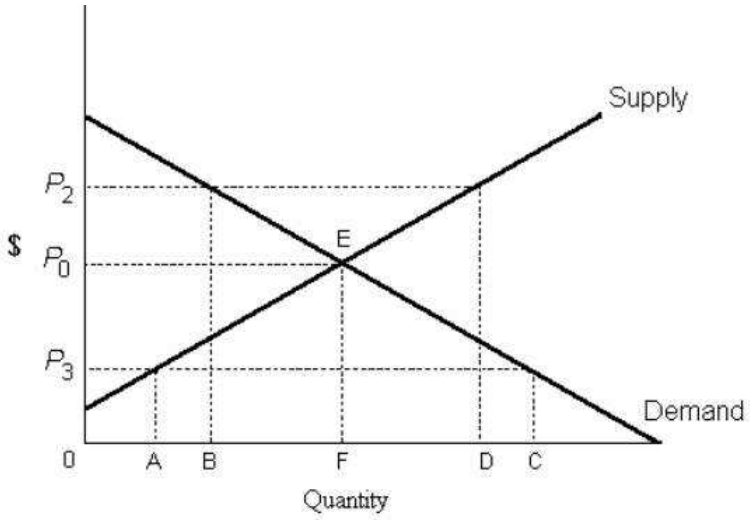

FIGURE 5–1

19) Refer to Figure 5–1. If the diagram applies to the market for rental housing and P_3 represents the maximum rent that can be charged, then 19) _____

A) windfall profits will be earned by landlords.
B) there will be an excess supply of rental units equal to BD.
C) there will be excess demand for rental units equal to AF.
D) there will be excess demand for rental units equal to FC.
E) units supplied will be reduced relative to the competitive equilibrium by AF rental units.

The diagram below shows the market for litres of milk.

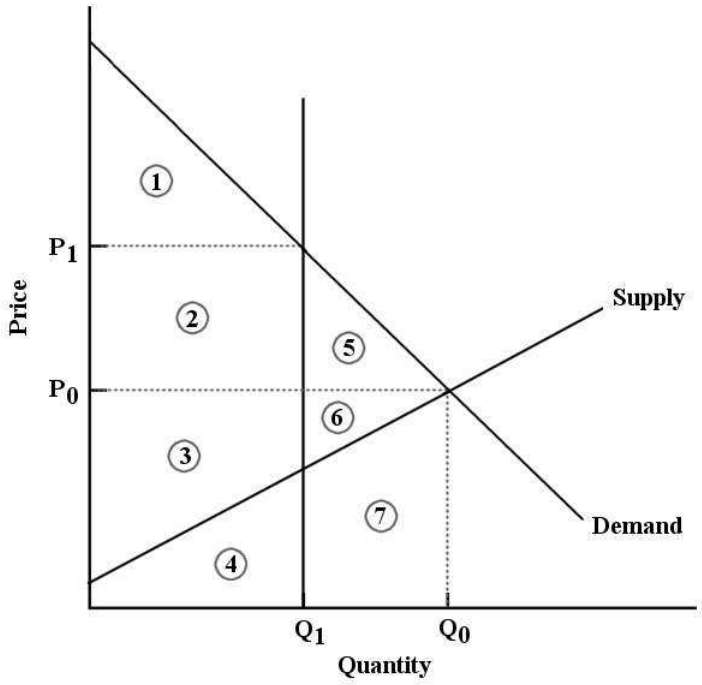

FIGURE 5–8

20) Refer to Figure 5–8. Suppose that a binding output quota is imposed on this market at quantity Q_1. The loss in economic surplus due to the quota is equal to 20) _____
A) areas 5 and 6.
B) areas 1, 2 and 3.
C) areas 5, 6 and 7.
D) area 1.
E) areas 2 and 5.

21) Economists usually assume that consumers 21) _____
A) are poor judges of what is best for them.
B) are motivated to maximize their profit.
C) usually save as much as possible of their income.
D) spend all of their current income.
E) are motivated to maximize their utility.

22) A basic hypothesis of marginal utility theory is that the utility a consumer derives from successive units of a good diminishes as total consumption of the good increases. This hypothesis is known as 22) _____
A) the utility theory of demand.
B) the law of diminishing marginal utility.
C) the paradox of value.
D) utility maximization.
E) the law of diminishing total utility.

23) The condition required for a consumer to be maximizing utility, for any pair of products, X and Y, is 23) _____

A) $MU_X/P_Y = MU_Y/P_X$.
B) $P_X = P_Y$.
C) $MU_X/P_X = MU_Y/P_Y$.
D) $MU_X = MU_Y$.
E) $P_X(MU_X) = P_Y(MU_Y)$.

24) Laurie spends all of her money buying bread and cheese. The marginal utility she receives from the last loaf of bread is 60 and from the last block of cheese is 30. The price of bread is $3 and the price of cheese is $2. Laurie 24) _____

A) is buying bread and cheese in utility-maximizing amounts.
B) should buy more bread and less cheese in order to maximize her utility.
C) should buy more bread and more cheese in order to maximize her utility.
D) should buy more cheese and less bread in order to maximize her utility.
E) is spending too much money on bread and cheese.

25) Consumer surplus is 25) _____

A) the same as total utility.
B) the marginal value that consumers place on their purchases.
C) the same as Karl Marx's notion of surplus value.
D) the total value that consumers place on their purchases.
E) the sum of the extra value placed on each unit of a commodity above the market price paid for each.

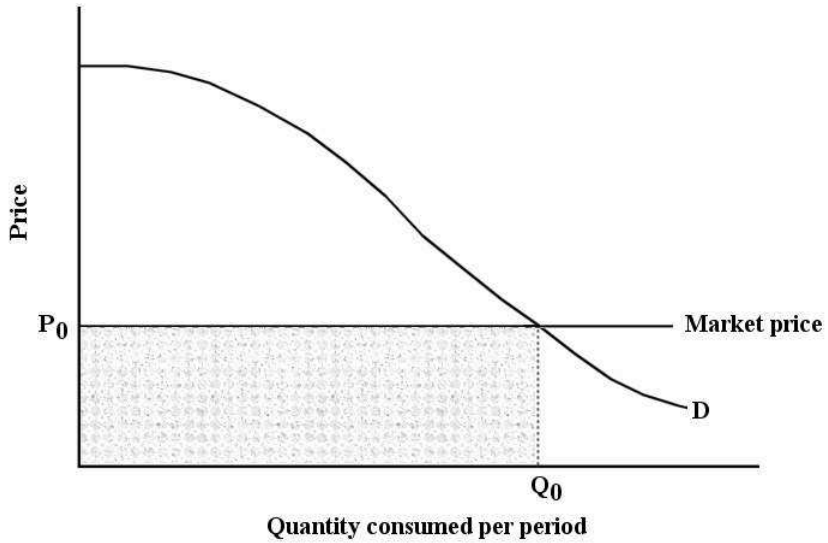

FIGURE 6-7

26) Refer to Figure 6-7. Suppose that price is P_0. Total consumer surplus is then given by the area 26) _____

A) below P_0 and to the left of Q_0.
B) under the demand curve to the left of Q_0, but above P_0.
C) under the entire demand curve.
D) under the demand curve to the left of Q_0.
E) above the market price.

27) Which of the following statements describes an advantage to the owner of a single proprietorship? 27) _____

A) The owner's liability is limited to the amount he or she actually invests in the firm.
B) Shares of the firm can be traded on any stock exchange.
C) The owner can readily maintain full and complete control over every aspect of the firm's operation.
D) The firm has a legal existence separate from its owner.
E) He or she has limited liability.

28) Undistributed profits of a firm are 28) _____

A) earnings that are used to cover the costs of production.
B) earnings that are used to pay dividends to shareholders.
C) earnings that are used to cover interest expenses of the firm.
D) profits that are available to be reinvested in the firm's operations.
E) profits that are paid out to owners of the firm.

The table below provides the total revenues and costs for a small landscaping company in a recent year.

Total Revenues ($)	250 000
Total Costs ($)	
– wages and salaries	150 000
– risk–free return of 2% on owner's capital of $20 000	400
– interest on bank loan	1500
– cost of supplies	27 000
– depreciation of capital equipment	8000
– additional wages the owner could have earned in next best alternative	30 000
– risk premium of 4% on owner's capital of $20 000	800

TABLE 7–2

29) Refer to Table 7–2. The explicit costs for this firm are 29) _____

A) $186 900. B) $178 500. C) $186 500. D) $217 700. E) $217 300.

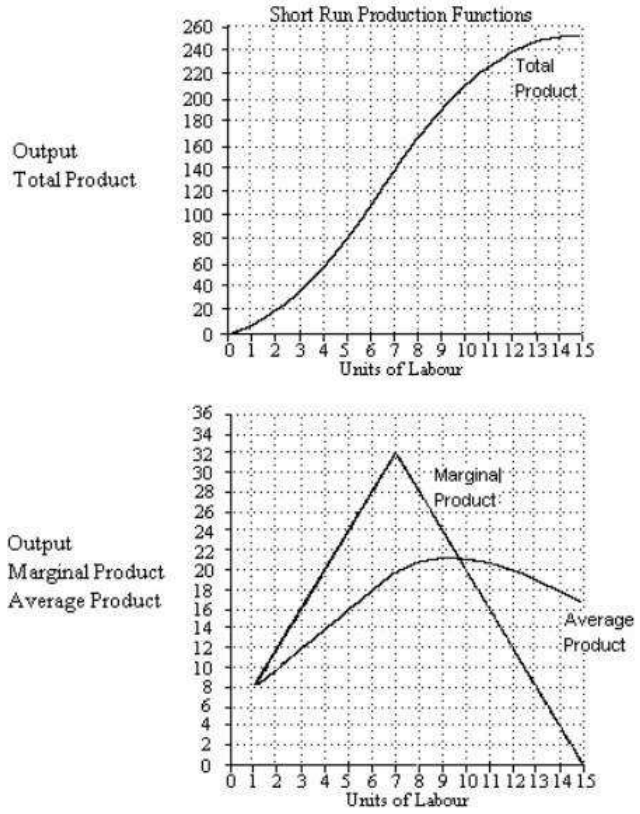

FIGURE 7–1

30) Refer to Figure 7–1. If the firm hires the 15th unit of labour, 30) _____
A) marginal product will be unchanged.
B) output will increase by 2 units of output.
C) the extra output will be zero.
D) the firm will reach its capacity.
E) average product will rise.

31) The law of diminishing returns states that if increasing quantities of a variable factor are applied to a given quantity of fixed factors, then 31) _____
A) TP will eventually begin to fall.
B) the AP will eventually decrease with constant MP.
C) the AP will eventually decrease, but only if TP is held constant.
D) the MP and the AP of the variable factor will eventually decrease.
E) the MP will eventually decrease with constant AP.

32) In the short run time horizon for a firm, total fixed costs 32) _____
A) decrease and then increase as output increases.
B) are equal to total variable costs.
C) do not vary with output.
D) increase and then decrease as output increases.
E) decrease as output increases.

The diagram below shows some short–run cost curves for a firm.

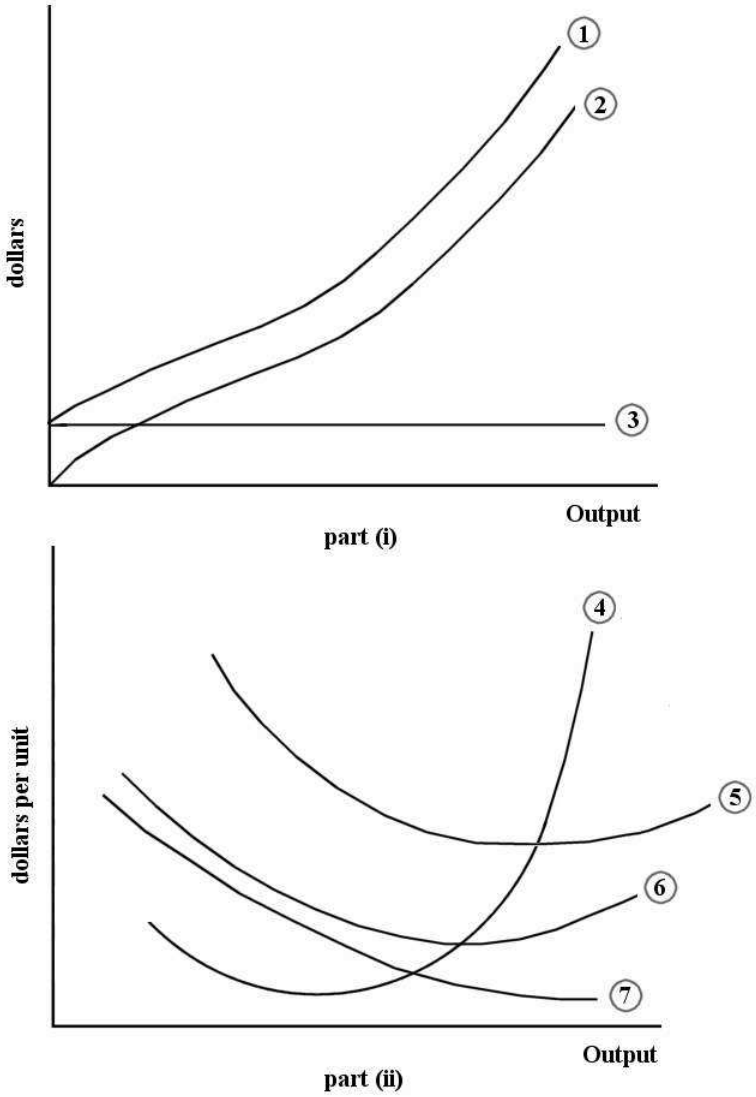

FIGURE 7–2

33) Refer to Figure 7–2. Which of the following choices correctly identifies the cost curves in part (i) of the figure? 33) _____

A) Curve 1 is the total cost curve.
Curve 2 is the total variable cost curve.
Curve 3 is the total fixed cost curve.

B) Curve 1 is the total cost curve.
Curve 2 is the total variable cost curve.
Curve 3 is the average fixed cost curve.

C) Curve 1 is the total marginal cost curve.
Curve 2 is the total average cost curve.
Curve 3 is the total average fixed cost curve.

D) Curve 1 is the total fixed cost curve.
Curve 2 is the total variable cost curve.
Curve 3 is the total cost curve.

E) Curve 1 is the total variable cost curve.
Curve 2 is the total cost curve.
Curve 3 is the total fixed cost curve.

34) Refer to Figure 7–2. Which of the following choices correctly identifies the cost curves in part (ii) of the figure? 34) _____

A) Curve 4 is the marginal cost curve.
Curve 5 is the average variable cost curve.
Curve 6 is the average fixed cost curve.
Curve 7 is the average total cost curve.

B) Curve 4 is the average fixed cost curve.
Curve 5 is the average total cost curve.
Curve 6 is the marginal cost curve.
Curve 7 is the average variable cost curve.

C) Curve 4 is the average total cost curve.
Curve 5 is the marginal cost curve.
Curve 6 is the average variable cost curve.
Curve 7 is the average fixed cost curve.

D) Curve 4 is the marginal cost curve.
Curve 5 is the average total cost curve.
Curve 6 is the average variable cost curve.
Curve 7 is the average fixed cost curve.

E) Curve 4 is the marginal cost curve.
Curve 5 is the average fixed cost curve.
Curve 6 is the average variable cost curve.
Curve 7 is the average total cost curve.

The table below shows the number of units of labour and capital used in 4 alternative production techniques for producing 1000 widgets per month.

Technique	A	B	C	D
Labour	25	35	50	30
Capital	50	35	25	60

TABLE 8–1

35) Refer to Table 8–1. If the price of labour is $10 and the price of capital is $5, which production technique minimizes the costs of producing 1000 units of output? 35) _____
A) A
B) B
C) C
D) D
E) Any of the techniques have the same cost.

36) When there is no other way of producing a given level of output with a smaller total value of inputs, the firm is operating at 36) _____
A) optimal output.
B) minimum cost.
C) maximum output.
D) maximum cost.
E) maximum profit.

The following table shows the marginal products of capital (K) and labour (L) for various methods for Firm ABC to produce 1000 toys per day.

Production Method	MP_K	MP_L
A	50	4
B	45	8
C	40	12
D	35	16
E	30	20
F	25	24
G	20	28

TABLE 8–2

37) Refer to Table 8–2. If capital costs $6 per unit and labour costs $4 per unit, which production method minimizes the cost of producing 1000 toys per day? 37) _____
A) method D B) method E C) method F D) method B E) method C

38) Assume a firm is using 6 units of capital and 6 units of labour to produce 6 baskets. Now it doubles both inputs resulting in a new total of 16 baskets being produced. This firm is experiencing 38) _____
A) constant returns to scale.
B) increasing returns to scale.
C) diseconomies of scale.
D) decreasing returns to scale.
E) increasing costs.

39) Suppose Farmer Smith hires 4 workers and leases 2 tractors and 15 hectares of farmland for one growing season, and produces 120 000 bushels of crop. The next year he hires 8 workers and leases 4 tractors and 30 hectares of farmland, and produces 210 000 bushels of crop. This firm (the farmer) is exhibiting _____ returns to scale. 39) _____
A) variable
B) constant
C) decreasing
D) increasing
E) marginal

40) With respect to innovation, which of the following statements is true? 40) _____
A) The principal incentive for innovation does not appear to be related to profits.
B) Government policy cannot influence the rate of innovation.
C) The utilization rate of existing plant and equipment and its durability are independent of the pace of innovation.
D) Innovation is exogenous to the economic system.
E) Innovation is often endogenous to the economic system.

41) Which of the following statements most accurately makes the distinction between the *long run* and the *very–long run* with respect to the long–run average cost (LRAC) curve? 41) _____
A) In the long run, the LRAC curve is shifting up, whereas in the very–long run the firm is moving along the existing LRAC curve.
B) In the long run, the firm is moving along the existing LRAC curve, whereas in the very–long run, the LRAC curve is shifting down.
C) In the long run, the firm is moving along the existing LRAC curve, whereas in the very–long run, the LRAC curve is shifting up.
D) In the long run, the LRAC curve is shifting down, whereas in the very–long run the firm is moving along the existing LRAC curve.
E) There is no distinction between the long run and the very–long run with respect to the LRAC curve.

42) The term "perfect competition" refers to 42) _____
A) a type of market structure.
B) cutthroat competition only.
C) rivalrous behaviour.
D) the most realistic market structure.
E) ideal economic behaviour.

43) The market demand curve for a perfectly competitive industry is typically 43) _____
A) infinitely elastic.
B) a rectangular hyperbola.
C) downward sloping.
D) identical to the competitive firm's demand curve.
E) upward sloping.

44) For a given market price, a competitive firm's average–revenue curve 44) _____
A) is the same as the firm's demand curve.
B) is a straight line that coincides with the market demand curve.
C) is a positively sloped straight line, starting from the origin.
D) increases to the right and then declines when *MC* = *MR*.
E) is the same as the firm's *TR* curve.

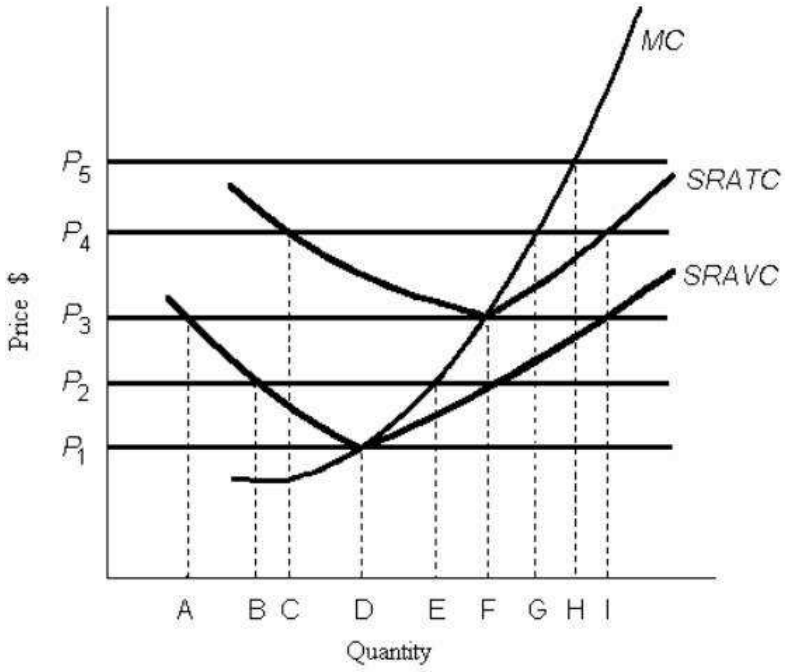

FIGURE 9–1

45) Refer to Figure 9–1. The diagram shows cost curves for a perfectly competitive firm. If the market price is P_1, the profit–maximizing firm in the short run should 45) _____
A) produce output A.
B) produce output B.
C) produce output C.
D) produce output D or shut down as it doesn't really matter which.
E) definitely shut down.

46) Refer to Figure 9–1. The diagram shows cost curves for a perfectly competitive firm. The price at which the firm earns zero economic profits is 46) _____
A) P_1. B) P_2. C) P_3. D) P_4. E) P_5.

47) Suppose a perfectly competitive firm is producing a level of output for which price equals average total cost, and average total cost is less than marginal cost. In order to maximize its profits, the firm should 47) _____

A) increase the market price.
B) reduce its output.
C) expand its output.
D) not change its output.
E) shut down.

Consider the following cost curves for two perfectly competitive firms, A and B.

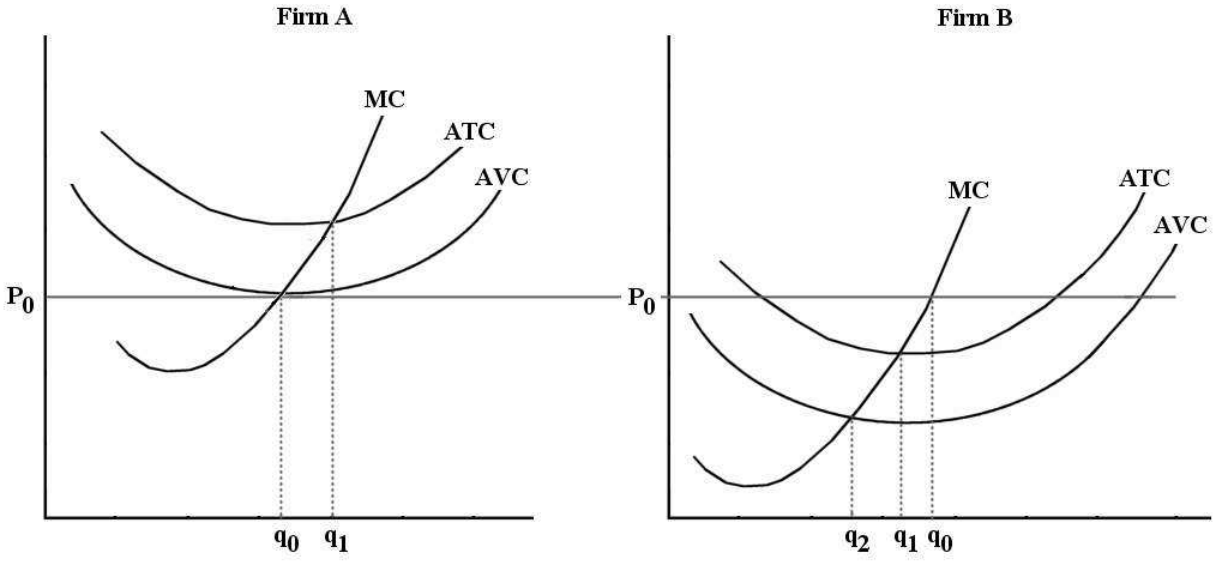

FIGURE 9-3

48) Refer to Figure 9-3. Firms A and B are in the same industry. Choose the statement that best describes the situation facing the two firms. 48) _____

A) Firm A is making losses but remains producing as long as price falls no further; Firm B is producing at lower cost and is earning economic profits.
B) Firm A and Firm B are both suffering economic losses and will soon exit the industry.
C) Firm A is suffering losses and will be shut down immediately; Firm B will be shut down if the price falls any further.
D) Firm A and Firm B are both earning positive economic profits; new firms will likely enter the industry.

The diagram below shows the short-run cost curves for 3 perfectly competitive firms in the same industry.

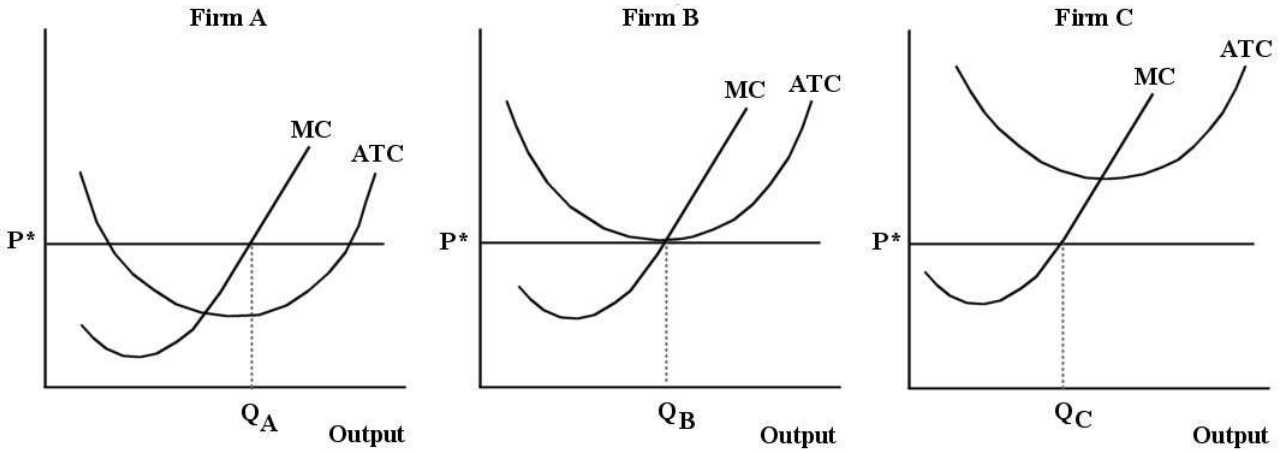

FIGURE 9-6

49) Refer to Figure 9-6. Which firm or firms is likely to exit this industry? 49) _____
A) Firm A
B) Firm B
C) Firm C
D) all of Firms A, B, and C
E) none of Firms A, B, and C

50) The marginal revenue curve facing a single-price monopolist 50) _____
A) shows the change in the profit for the firm.
B) is the same as the demand curve facing the monopolist.
C) at first falls to a minimum and then rises as output is increased.
D) lies below the average revenue curve.
E) is the same as the average revenue curve facing the monopolist.

The figure below shows the demand schedule and demand curve for a product produced by a single–price monopolist.

Price ($)	Quantity Demanded
8	5
7	6
6	7
5	8
4	9
3	10
2	11

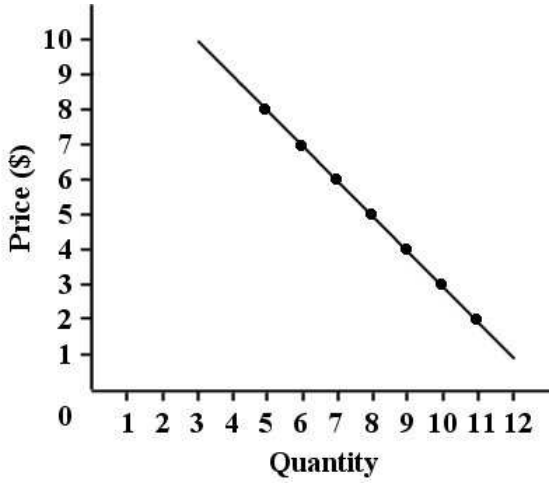

FIGURE 10–1

51) Refer to Figure 10–1. Suppose this single–price monopolist is initially selling 5 units at $8 each and then reduces the price of the product to $6. By making this change, the firm is giving up revenue of _____ on the original number of units sold and gaining revenue of _____ on the additional units sold. Its marginal revenue is therefore _____. (All figures are dollars.) 51) _____
A) 14; 14; 0 B) 8; 6; 2 C) 10; 12; 2 D) 5; 7; –2 E) 38; 40; 2

Your food–services company has been named as the sole provider of meals at a small university. The cost and demand schedules are:

Sold per Day	Price per Meal	Total Fixed Cost	Total Variable Cost	Total Revenue
0	$3.50	$150	$0	$0
100	$3.25	$150	$300	$325
200	$3.00	$150	$500	$600
300	$2.75	$150	$650	$825
400	$2.50	$150	$750	$1000
500	$2.25	$150	$830	$1125
600	$2.00	$150	$905	$1200
700	$1.75	$150	$995	$1225

TTABLE 10–2

52) Refer to Table 10–2. The marginal cost between 100 and 200 meals per day is 52) _____
A) $2.00. B) $1.50. C) $3.00. D) $0. E) $1.00.

53) Refer to Table 10–2. Assuming the firm is a single–price monopolist, the marginal revenue at 200 meals per day is 53) _____
A) $0. B) $2.25. C) $2.75. D) $1.75. E) $3.25.

54) Which of the following is probably NOT an example of price discrimination? 54) _____

A) A doctor charging for his services according to the income of his patients.
B) A supermarket charging more for strawberries in December than in June.
C) A theatre charging children under 12 less for a movie ticket than it charges an adult.
D) Universities charging out–of–province students higher tuition fees.
E) Train fares that are less expensive for weekend travel than weekday travel.

The diagram below shows a pharmaceutical firm's demand curve and marginal cost and marginal revenue curves for a new heart medication for which the firm holds a 20–year patent on its production.

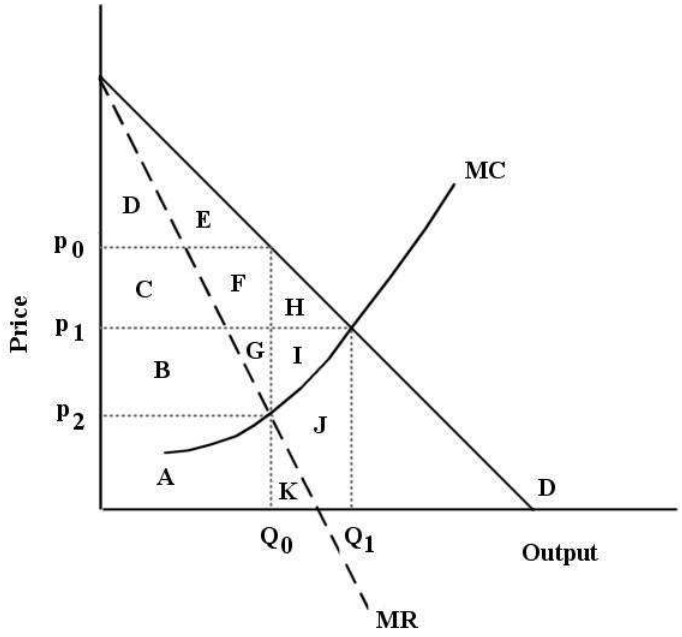

FIGURE 10–5

55) Refer to Figure 10–5. Assume this pharmaceutical firm charges a single price for its drug. At its profit–maximizing level of output it will produce 55) _____

A) Q_0 units and charge a price of p_0.
B) Q_1 units and charge a price greater than its average total variable cost.
C) Q_0 units and charge the perfectly competitive price.
D) Q_0 units and charge a price of p_2.
E) Q_1 units and charge a price of p_1.

56) Consider a monopolist that is able to distinguish between two distinct market segments, A and B, for its product. Marginal cost is constant at $18 for each unit produced. The firm is currently selling its output at a single price and allocating its output across segments such that marginal revenue in segment A is $25 and marginal revenue in segment B is $15. Is this firm maximizing its profit? 56) _____

A) Yes, because since marginal cost is constant, the firm must set a single price.
B) Yes, because it has set a price such that MC is between the MRs of the two market segments.
C) No, because it is only possible to equate MR and MC when there is a single MR curve.
D) No, this firm can increase its profits by price discriminating across the two market segments.

57) By calculating a concentration ratio, economists measure the 57) _____
A) concentration of firms in one geographic location.
B) fraction of total industry sales accounted for by the largest firms.
C) degree to which firms in the industry use similar technologies.
D) degree to which a monopolist's output is lower than in perfect competition.
E) control of a monopolist over its input prices.

58) In an imperfectly competitive market, changes in market conditions are often signalled to the individual firms by a change in the 58) _____
A) price of the product.
B) firm's sales.
C) government policy.
D) cost conditions.
E) elasticity of supply.

59) Which of the following are characteristic of a monopolistically competitive market? 59) _____
A) Each firm faces a horizontal demand curve.
B) There are many small firms in the industry.
C) Economic profits are often positive in the long run.
D) Firms engage in strategic behaviour.
E) All firms are price takers.

60) If there are economic profits in a monopolistically competitive industry, they will generally be competed away through the 60) _____
A) introduction of brand name products by existing firms.
B) manipulation of the demand curve.
C) entry of new firms.
D) exit of existing firms.
E) increasing advertising budgets of existing firms.

61) The main difference between perfect competition and monopolistic competition is 61) _____
A) there are more firms in perfect competition.
B) firms earn profits in the long run in monopolistic competition.
C) monopolistic competition has product differentiation.
D) perfect competition has freedom of entry and exit.
E) monopolistic competition has lower costs.

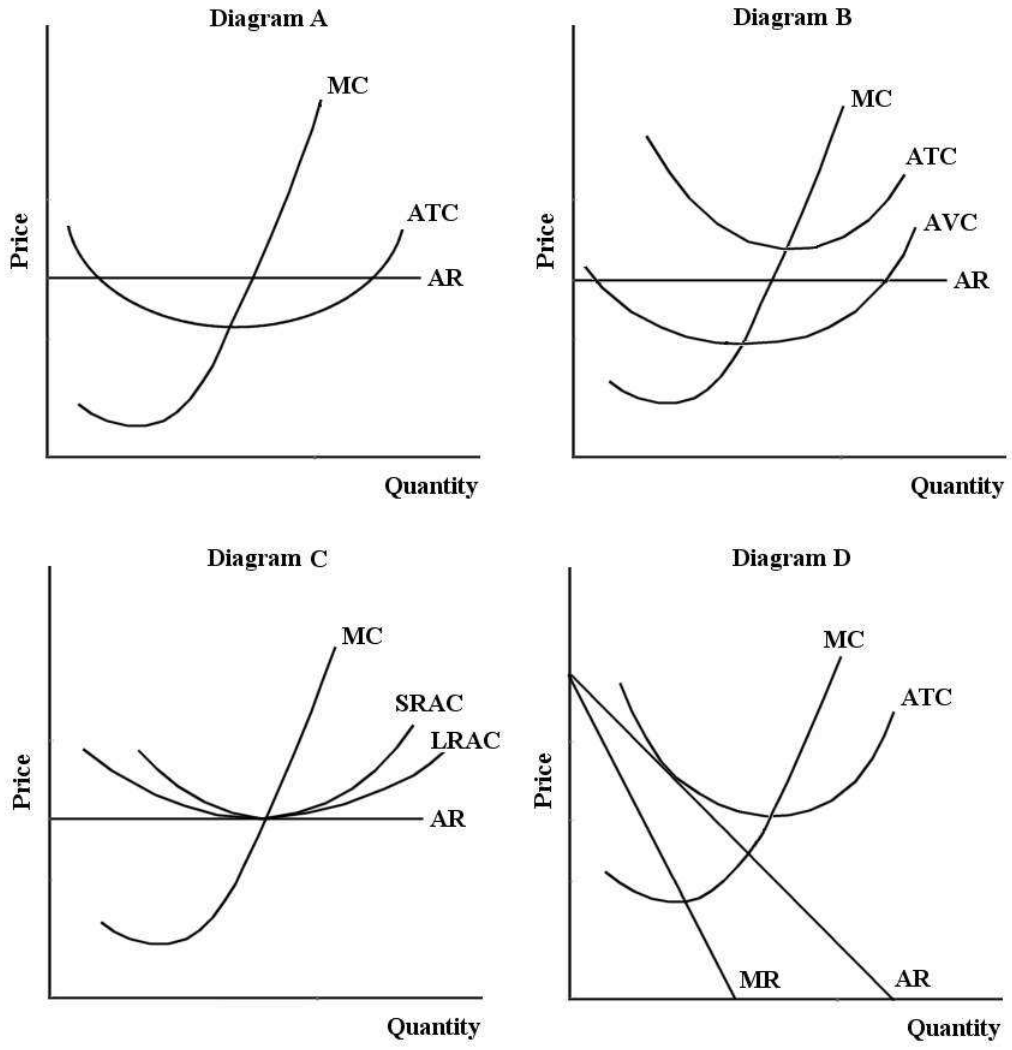

FIGURE 11–2

62) Refer to Figure 11–2. A perfectly competitive firm with zero economic profits is depicted in diagram 62) _____

A) A. B) B. C) C. D) D. E) B or D

The diagram below shows demand and cost curves for a monopolistically competitive firm.

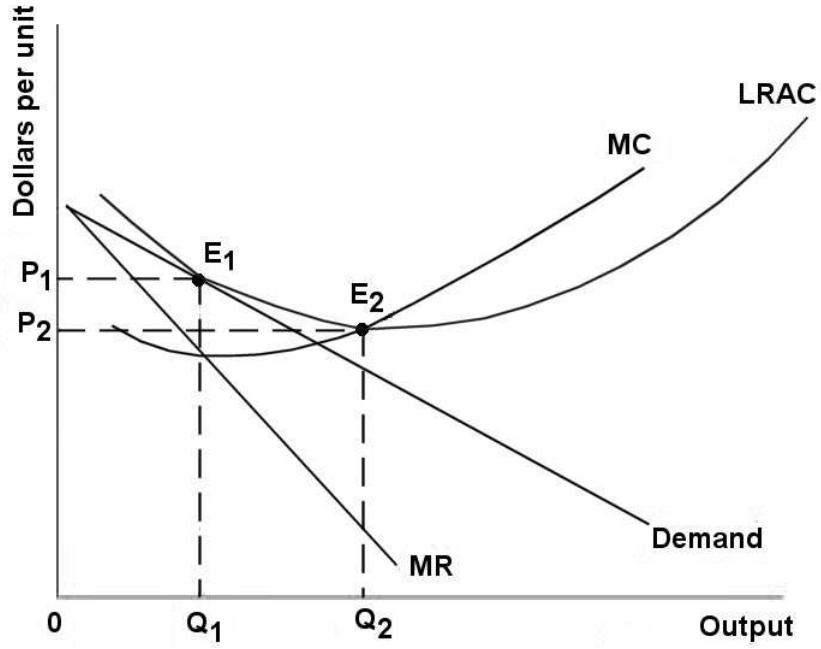

FIGURE 11–3

63) Refer to Figure 11–3. If an increase in industry demand led to an outward shift in each firm's demand curve, and no change to the firm's costs, the typical firm would 63) _____
A) be making losses and some firms would exit the industry in the long run.
B) decrease costs in order to break even at P_1 and Q_1 in the long run.
C) increase costs in order to break even at P_1 and Q_1 in the long run.
D) be making profits and new firms would enter the industry in the long run.
E) would expand its output in the long run.

64) "Brand proliferation" is an example of 64) _____
A) an economy of scale.
B) predatory pricing.
C) a firm–created barrier to entry.
D) collusive behaviour.
E) an absolute cost advantage.

65) An oligopolistic firm can earn positive profits 65) _____
A) only if it advertises its own product.
B) only if it maintains excess capacity in the production of it product.
C) because there are barriers to entry.
D) only in the short run.
E) only in the long run.

66) Consider an example of the prisoner's dilemma where 2 firms are making sealed bids on a contract and each firm is allowed to bid either $100 or $180. If both firms bid the same price, the job is shared equally and each firm earns half the value of its bid. Otherwise the lowest bidder wins the contract and receives the full value of its bid (and the other bidder earns zero). The cooperative outcome in this situation is 66) _____
A) both firms bid $50.
B) both firms bid $90.
C) both firms bid $100.
D) both firms bid $180.
E) one firm bids $100, the other firm bids $180.

67) For an entire economy, allocative efficiency requires that 67) _____
A) goods are allocated equitably across markets.
B) price equals average cost for all goods.
C) price is greater than marginal cost for all goods.
D) *MRP* is equated for all factors of production.
E) marginal cost equals price for all goods.

68) An economy will be allocatively efficient if 68) _____
A) all firms are breaking even.
B) the economy's resources are fully employed.
C) price equals marginal cost for all products.
D) the price equals average cost for all goods.
E) the average cost of production is the lowest possible for all goods produced.

Consider three firms, A, B and C, all producing kilos of potatoes (per year) in a perfectly competitive market. The diagrams below show marginal cost curves for each of the three firms.

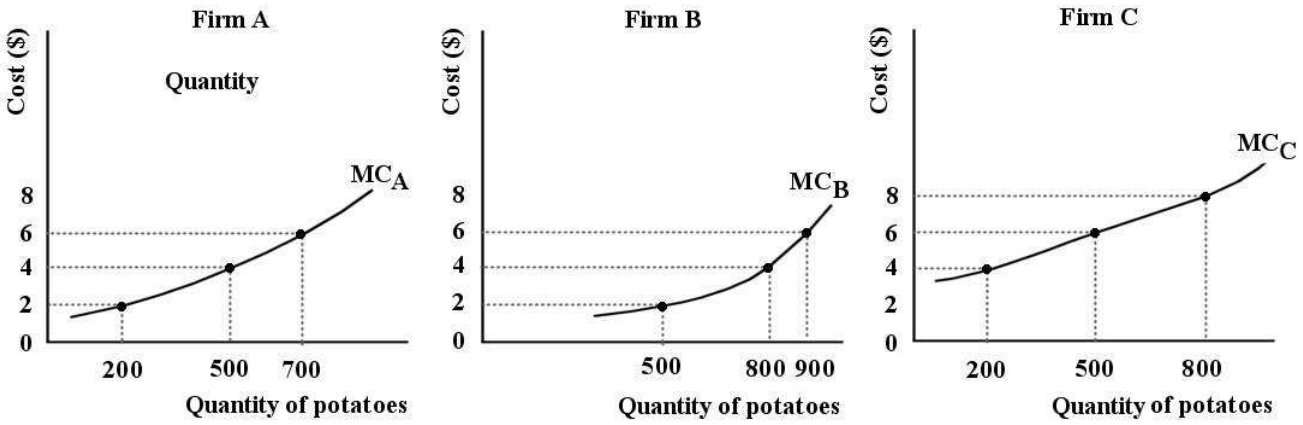

FIGURE 12–1

69) Refer to Figure 12–1. Suppose each of Firms A, B, and C are producing 500 kilos of potatoes. Is this industry productively efficient? 69) _____
A) No, because each firm could easily produce more than 500 kilos.
B) No, because the marginal cost curve for each firm has a different slope.
C) It is not possible to say whether this industry is productively efficient because we do not know the market price of the product.
D) Yes, because output is equated for all firms.
E) No, because marginal costs are not equated for all firms.

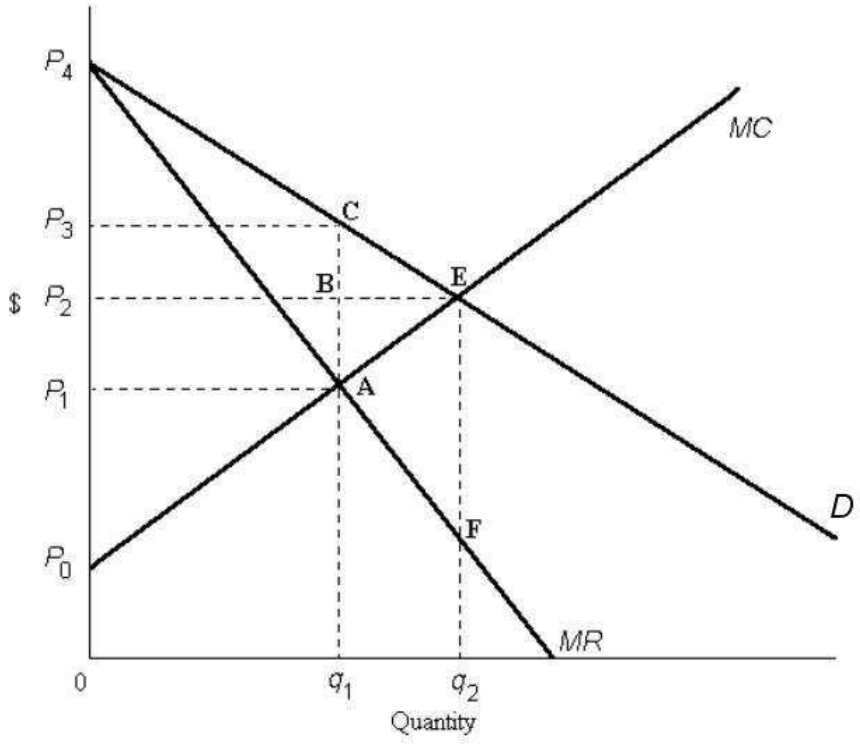

FIGURE 12–3

70) Refer to Figure 12–3. If the diagram is depicting a perfectly competitive industry, the equilibrium price and quantity is 70) _____
A) P_2 and q_1. B) P_1 and q_1. C) P_2 and q_2. D) P_3 and q_1. E) P_1 and q_2.

71) When comparing a monopoly equilibrium to a competitive market equilibrium, the consumer suffers two types of losses. They are 71) _____
A) the loss of both consumer surplus and producer surplus.
B) the deadweight loss due to the output that is not produced and the transfer of producer surplus to the monopolist.
C) the deadweight loss due to the output that is produced beyond the competitive level, and the transfer of consumer surplus to the monopolist
D) the deadweight loss due to the output that is produced and the reduced incentive for innovation by the monopolist.
E) a loss of consumer surplus due to the output that is not produced, and the transfer of consumer surplus to the monopolist.

72) The "functional distribution of income" refers to the distribution of income 72) _____
A) among the industrial nations.
B) between the government and the factors of production.
C) between the various economic sectors of a country.
D) among the various social classes.
E) among the major factors of production.

Consider the following table for a firm. The first column shows the number of units of a variable factor of production employed by the firm.

Total Number of Units of the Factor	Total Number of Units of Output
2	100
3	110
4	128
5	148
6	162
7	170
8	166

TABLE 13–2

73) Refer to Table 13–2. This firm begins to experience diminishing marginal productivity when it hires the _____ unit of the factor. 73) _____
A) 3rd B) 4th C) 5th D) 6th E) 7th

74) The shape of the marginal revenue product curve for a perfectly competitive firm would be _____ its marginal product curve because _____. 74) _____
A) steeper than; its product's price increases as output increases
B) flatter than; it must pay a higher wage to the variable factor as output increases
C) the same as; MR is constant as output increases
D) flatter than; its product's price decreases as output increases
E) steeper than; MR decreases as output increases

The table below shows the total production for varying numbers of hours worked producing yo–yos. The firm sells its product and hires its workers in competitive markets.

Number of Hours Worked	Number of Yo–Yos Produced	Wage Rate per Hour ($)	Price of Yo–Yos ($)
10	60	10	5
11	70	10	5
12	78	10	5
13	84	10	5
14	88	10	5
15	90	10	5

TABLE 13–4

75) Refer to Table 13–4. Which of the following statements best describes the situation of this firm when it is employing 12 hours of labour? The 12th hour of labour hired 75) _____
A) adds $5 to revenue, but costs $10 to hire, so this firm should hire less labour.
B) adds $8 to revenue, but costs $10 to hire, so this firm should hire less labour.
C) adds $10 to revenue and costs $10 to hire, so this firm is maximizing its profit at 12 hours of labour.
D) adds $30 to revenue, but only costs $10 to hire, so this firm should hire more labour.
E) adds $40 to revenue, but only costs $10 to hire, so this firm should hire more labour.

The diagram below shows the MRP curve for a firm producing copper plumbing pipe. The factor of production being considered here is hours of labour.

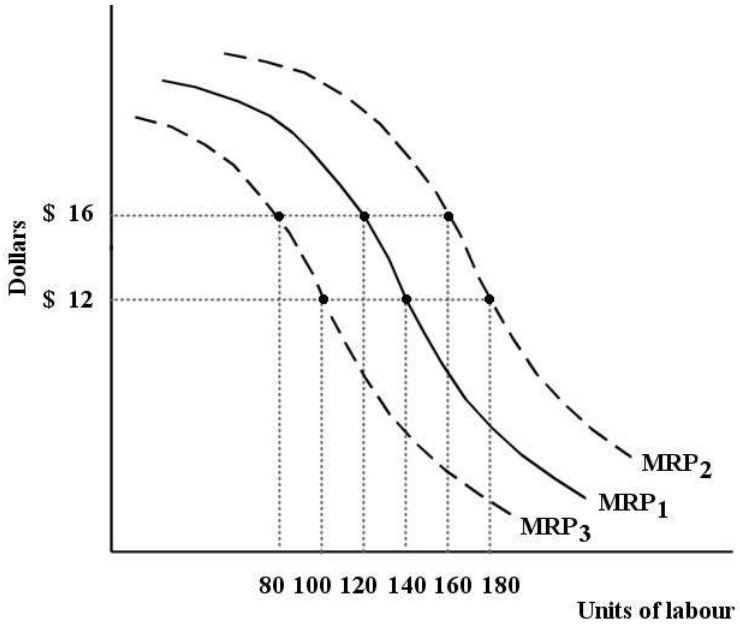

FIGURE 13–2

76) Refer to Figure 13–2. Suppose this firm is facing MRP_1, a wage rate of $12 per hour and is employing 150 units of labour. At this level of employment, 76) _____
A) the last unit of labour is adding less to the firm's cost than it is adding to the firm's revenue, so it should increase the use of labour.
B) the last unit of labour contributes as much to the firm's costs as to the firm's revenues and so the firm should not change its use of labour.
C) the firm has shifted the MRP curve to MRP_3.
D) the firm has shifted the MRP curve to MRP_2.
E) the last unit of labour is adding more to the firm's cost than it is adding to the firm's revenue, so it should reduce the use of labour.

77) Non–monetary considerations tend to be most important in the allocation of 77) _____
A) raw materials.
B) land.
C) labour.
D) natural resources.
E) capital.

78) Other things equal, if a particular province has some non–monetary advantages, such as a temperate climate, the wage rate in that province will be 78) _____
A) lower than average and the market will be in disequilibrium.
B) the same as any other province.
C) higher than average and the market will be in disequilibrium.
D) higher than average and the market will be in equilibrium.
E) lower than average and the market will be in equilibrium.

79) The term "economic rent" refers to 79) _____
A) transfer earnings plus opportunity cost.
B) a payment for use of land.
C) factor payments in excess of transfer earnings.
D) economic profit.
E) the opportunity cost of land.

80) If labour markets were perfectly competitive, 80) _____
A) all workers would eventually earn the same wage.
B) discrimination could not create wage differentials.
C) wage differentials could still exist because of differences in workers and jobs.
D) working conditions would be the same for all jobs.
E) all workers would achieve the same levels of education and experience.

The table below shows the labour demand and labour supply schedules in a competitive labour market.

Wage Rate ($/hour)	Quantity Demanded of Labour (hours/month)	Quantity Supplied of Labour (hours/month)
10	1300	500
12	1000	1000
14	800	1300
15	400	1500
17	200	1800

TABLE 14–1

81) Refer to Table 14–1. If the wage rate is $15 per hour, how many hours per month are supplied to this market but are not actually employed? 81) _____
A) 400 B) 0 C) 1100 D) 1500 E) 1000

82) A labour union can most easily raise the wages received by its members by 82) _____
A) improving productivity.
B) increasing the demand for the product.
C) increasing the demand for labour.
D) raising employment.
E) decreasing the supply of labour from its members.

83) Suppose a labour union enters a *competitive* labour market and is successful in raising wages above the competitive equilibrium level. In this situation, 83) _____
A) each firm in the industry will face a horizontal supply curve for labour at the union wage, up to the maximum quantity of labour that is prepared to work at that wage.
B) those workers already employed will earn a lower wage than before.
C) the number of firms in the industry will increase and the demand for labour curve will shift to the right, causing a subsequent increase in the wage.
D) employment in the industry will surely increase.
E) the market supply curve for labour will be upward sloping over its entire range.

84) A legislated minimum wage is comparable to 84) _____
A) a black–market price.
B) a price ceiling.
C) bilateral monopoly.
D) a rent control.
E) a price floor.

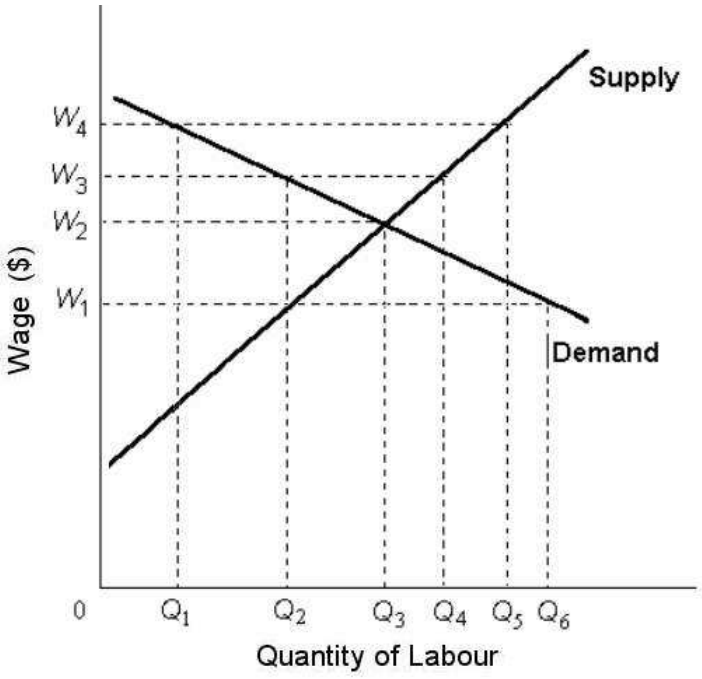

FIGURE 14–5

85) Refer to Figure 14–5. If this labour market were perfectly competitive, the predicted wage and employment level would be 85) _____
A) W_3 and Q_4.
B) W_3 and Q_2.
C) W_4 and Q_5.
D) W_1 and Q_2.
E) W_2 and Q_3.

86) The fundamental dilemma facing labour unions is 86) _____
A) wage increases versus publicly provided pensions.
B) wage increases versus employment growth.
C) "featherbedding" versus the union–wage premium.
D) job security versus worker safety.
E) members' roles as workers versus their roles as consumers.

87) With regard to the "good jobs–bad jobs" debate, why is the categorization of manufacturing jobs as "good jobs" and service–sector jobs as "bad jobs" not necessarily accurate? 87) _____

A) Because many service–sector jobs require highly skilled workers and are highly paid.
B) Because all service–sector jobs are preferable to manufacturing jobs.
C) Because all manufacturing jobs have experienced a decline in real wages over the past two decades.
D) Because all service–sector jobs have experienced large gains in productivity over the past two decades and an associated rise in wages.
E) Because all manufacturing jobs have experienced declines in productivity over the past two decades and an associated increase in wages.

88) The essential coordinating mechanism of a free–market economy is 88) _____

A) opportunity cost.
B) allocative efficiency.
C) productive efficiency.
D) profit maximization.
E) the price system.

89) Which of the following statements about market economies is true? 89) _____

A) Market failure means that a market economy is incapable of satisfying human wants.
B) Pure market economies provide the best social outcome.
C) Most present–day economists advocate extensive government intervention in most parts of market economies.
D) An important characteristic of the market system is its ability to set in motion forces that tend to correct disequilibrium.
E) Externalities make free–market outcomes socially efficient.

90) A free–market economy with perfect allocative efficiency does not exist in reality because 90) _____

A) firms in many industries have some degree of market power and face negatively sloped demand curves, and produce a level of output where $P > MC$.
B) the assumption of profit–maximization is not a realistic assumption about the behaviour of firms.
C) the assumption of utility maximization is not a realistic assumption about the behaviour of consumers.
D) government intervention in the economy prevents the economic forces that would eventually bring the market to an allocatively efficient outcome.
E) the decentralization of economic power in a free–market economy does not allow for allocative efficiency.

91) If a firm produces a good and its consumption generates external benefits, then at the competitive market equilibrium 91) _____

A) the marginal social benefit is less than the marginal cost of producing the last unit.
B) the government could subsidize the production of this good to improve efficiency.
C) the marginal private benefit is greater than the marginal cost of producing the last unit.
D) the firm will not produce an additional amount if it can internalize the external benefits.
E) the output would be more than the socially optimal amount.

92) If a homeowner uses wood to heat his house, 92) _____
A) the price of the wood represents an external cost to the homeowner, unless he harvests the wood himself.
B) he may generate an external cost if the smoke bothers his neighbours.
C) he may generate an external benefit if the smoke bothers his neighbours.
D) he may generate an external benefit if the price of heating oil goes down in his region.
E) the price of the wood represents an external cost to the homeowner.

93) An example of a common–property resource is 93) _____
A) a congested toll highway.
B) a national park with an entrance fee.
C) a sport–fishing river in BC.
D) privately owned cattle grazing land in Alberta.
E) privately owned ranch land.

94) Consider a non–rivalrous good, like national defence, provided by the government. At the socially optimal level of provision of this good, the marginal 94) _____
A) cost of production of this good is zero.
B) cost of production of the last unit of the good is equal to the consumers' marginal willingness to pay.
C) cost of production of the last unit of the good is more than all consumers' combined marginal willingness to pay.
D) cost of production of the last unit of the good is equal to all consumers' combined marginal willingness to pay.
E) sacrifice society needs to make to supply the last unit of the good is more than each consumer's marginal willingness to pay.

95) Consider a remote village with a limited, freely available water supply and no government intervention in the allocation of water. In economics, the resulting outcome of a situation such as this is often referred to as 95) _____
A) moral hazard.
B) asymmetric information.
C) the tragedy of the commons.
D) adverse selection.
E) the Coase theorem.

96) A good example of a public good is 96) _____
A) a school bus.
B) a publicly owned subway system.
C) a seat on an airplane flight.
D) light from a lighthouse.
E) a municipal swimming pool.

97) The fact that it is difficult to prevent people from using public goods once they are produced, even if they have not paid, is known as 97) _____
A) adverse selection.
B) moral hazard.
C) the easy–rider problem.
D) the free–rider problem.
E) the over–consumption problem.

98) Why would it be inefficient for the government to charge a price for consuming a public good such as national defence? 98) _____

A) Too little national defence will be provided.
B) No one will be willing to pay to consume any national defence.
C) The marginal cost of providing national defence is zero.
D) Too much defence will be provided.
E) The price cannot be set to cover all defence costs.

99) Moral hazard is said to exist when one party to a transaction 99) _____

A) has the incentive to, and is able to, shift costs to another party in the transaction.
B) is not able to take advantage of the other party.
C) has no morals.
D) is subject to a hostile corporate takeover.
E) purchases insurance because they know they are involved in risky activities.

100) Governments usually provide a system of unemployment insurance. What broader social goal is being met in this case? 100) _____

A) income distribution
B) preference for public provision
C) protecting individuals from others or themselves
D) social responsibility
E) policies for economic growth

Answer Key
Testname: FINALFALL2014PRACTICE

1) E
2) D
3) C
4) E
5) E
6) C
7) B
8) E
9) D
10) C
11) C
12) D
13) A
14) B
15) E
16) B
17) C
18) B
19) E
20) A
21) E
22) B
23) C
24) B
25) E
26) B
27) C
28) D
29) C
30) C
31) D
32) C
33) A
34) D
35) A
36) B
37) B
38) B
39) C
40) E
41) B
42) A
43) C
44) A
45) D
46) C
47) B
48) A
49) C
50) D

51) C
52) A
53) C
54) B
55) A
56) D
57) B
58) B
59) B
60) C
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62) C
63) D
64) C
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68) C
69) E
70) C
71) E
72) E
73) D
74) C
75) E
76) E
77) C
78) E
79) C
80) C
81) C
82) E
83) A
84) E
85) E
86) B
87) A
88) E
89) D
90) A
91) B
92) B
93) C
94) D
95) C
96) D
97) D
98) C
99) A
100) A