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Faculté des sciences sociales
Science économique

Faculty of Social Sciences
Economics

Introduction to microeconomics - ECO1104B
Professor David Gray
Final Examination
December 2009

1. Make sure that you are in the designated location for your course section or else your exam may not be graded. These are:

Professor	Gray	Eco1104 B	Gym A - B - C
Professor	Nadeau	Eco1104 E	Gym E - F
Professor	Milot	Eco1504 B	202 and 203 Montpetit
Professor	Nadeau	Eco1504 C	Gym E, F

2. Keep your student ID visible at all times;
3. Please silence all cell phones and any other instruments that go Beep! Beep! Beep! or can potentially make disturbing sounds during the exam;
4. Please remain quiet at all times;
5. Programmable calculators, pocket computers (e.g. Palm handhelds), and portable music devices are strictly forbidden during the exam;
6. Please look at the blackboard from time to time for possible corrections;
7. This exam is printed double sided;
8. There are 100 multiple choice questions. Make sure your copy is complete;
9. Select the best answer among the available choices;
10. Please ensure that you have properly filled in your personal information on the scantron sheet. Pencil in the required information and blacken the cells (little ovals). If you are unsure as to how to complete the sheet, please ask your exam supervisor, we are not responsible for grading sheets with missing or incomplete information.
11. Use a pencil to fill in the scantron answer sheet;
12. Make sure that you have signed the attendance sheet before leaving;
13. When you have finished, please ensure to hand in the exam questionnaire AND the scantron sheet in the designated box for your section. Also ensure that the scantron sheet is facing up and in the proper direction;
14. You have 3 hours to complete the exam;
15. Unless otherwise noted by your instructor, exam results should be available through InfoWeb by mid-January, at the latest. DO NOT contact your instructor for this information; and
16. Provide the following information:

Surname (bloc letters): _____

Given name: _____ student number: _____

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1. By **scientific method** we mean:

- a. the use of modern electronic testing equipment to understand the world.
- b. **the dispassionate development and testing of theories about how the world works.**
- c. the use of controlled experiments in understanding the way the world works.
- d. finding evidence to support preconceived theories about how the world works.

B

2 Economists employ **models** in order to:

- a. **learn how the economy works.**
- b. make their profession appear more precise.
- c. imitate reality
- d. make sure that all of the details of the economy are included in their analysis.

A

3. On a **production possibilities frontier**, production is said to be **efficient** if the production point is:

- a. **on the frontier.**
- b. outside the frontier.
- c. on or inside the frontier.
- d. inside the frontier.

A

4. Which of the following statements regarding international **trade** is NOT correct?

- a. Trade allows for **specialization.**
- b. Trade can lead to **higher living standards**
- c. Trade is based on absolute advantage.
- d. Trade allows individuals to **consume outside of their individual production possibilities curve.**

C

5. If Shawn can produce donuts at a **lower opportunity cost** than Sue, then:

- a. Shawn has a **comparative advantage** in the production of donuts.
- b. Sue has a comparative advantage in the production of donuts.
- c. Shawn should be retrained and produce a different product.
- d. It is obvious that Shawn is capable of producing more donuts than Sue.

A

6. Belarus has a **comparative advantage** in the production of linen, but Russia has an absolute advantage in the production of linen. If these two countries decide to trade:

- a. **Belarus should export linen to Russia.**
- b. Russia should export linen to Belarus.
- c. For these two countries, trading linen would be a "stand-off", so they should trade another product.
- d. Without additional information about Russia, this question cannot be answered.

A

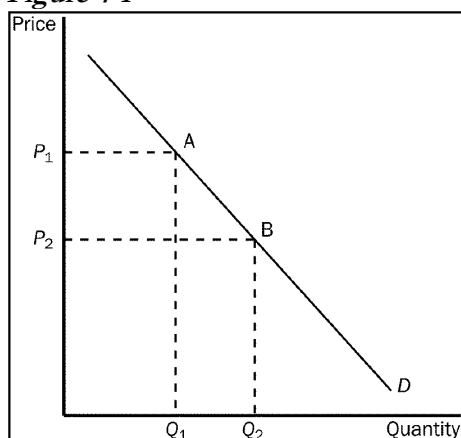
7. Which of the following would NOT be a **determinant of demand?**

- a. **the price of related goods**
- b. **Income**
- c. **Tastes**
- d. the prices of the inputs used to produce the good

D

8. If a good is "normal," then an increase in income will result in:
- no change in the demand for the good.
 - an increase in the demand for the good.
 - a decrease in the demand for the good.
 - a lower market price.
- B
9. Two goods are substitutes if a decrease in the price of one good:
- increases the demand for the other good.
 - reduces the demand for the other good.
 - reduces the quantity demanded of the other good.
 - increases the quantity demanded of the other good.
- B
10. Alyssa rents 5 movies per month when the price is \$3.00 each and 7 movies per month when the price is \$2.50. Alyssa has demonstrated the:
- law of increasing opportunity costs
 - law of supply.
 - Law of diminishing marginal product
 - law of demand.
- D
11. Holding all else constant, a higher price for ski lift tickets would be expected to:
- Increase the number of skiers.
 - decrease the supply of ski resorts.
 - decrease the demand for other winter recreational activities.
 - decrease ski sales.

D

Figure 4-1

12. Refer to Figure 4-1. The movement from point A to point B on the graph would be caused by:
- an increase in price.
 - a decrease in price.
 - a decrease in the price of a substitute good.
 - an increase in income.

B

Table 4-1

The table shows individual demand schedules for a market. The time frame is one week.

Price of the Good	Aaron	Angela	Austin	Alyssa
\$0.00	20	16	10	8
0.50	18	12	6	6
1.00	14	10	2	5
1.50	12	8	0	4
2.00	6	6	0	2
2.50	0	4	0	0

13. Refer to Table 4-1. When the price of the good is \$1.00, the quantity demanded in this market would be:
- a. 42 units.
b. 31 units.
c. 24 units.
d. 14 units.
- B
14. Lead is an important input in the production of crystal. If the price of lead decreases, all else equal, we would expect the supply of:
- a. crystal to be unaffected.
b. crystal to decrease.
c. crystal to increase.
d. lead to increase.
- C
15. When quantity demanded responds only slightly to changes in price, demand is said to be:
- a. unit elastic.
b. elastic.
c. inelastic.
d. perfectly inelastic.
- C
16. If a good is a necessity, demand for the good would tend to be:
- a. price elastic.
b. horizontal.
c. unit elastic with respect to price.
d. price inelastic.
- D
17. Holding all other forces constant, when the price of gasoline rises, the number of gallons of gasoline demanded would fall substantially over a ten-year period because:
- a. buyers tend to be much less sensitive to a change in price when given more time to react.
b. buyers will have substantially more income over a ten-year period.
c. buyers tend to be much more sensitive to a change in price when given more time to react.
d. None of these answers are correct.
- C
18. Which of the following factors is NOT a determinant of the price elasticity of demand for a product?
- a. The time frame
b. The ease to which production of one good can be transformed into production of another
c. The definition of the market (i.e. its scope)
d. The availability of substitutes
- B
19. When the price of kittens was \$25 each, the pet shop sold 20 of them per month. When they raised the price to \$35 each, they sold 14 per month. The price elasticity of demand for kittens would be:
- a. 1.66.

- b. 1.06.
- c. 0.94.
- d. 0.60.

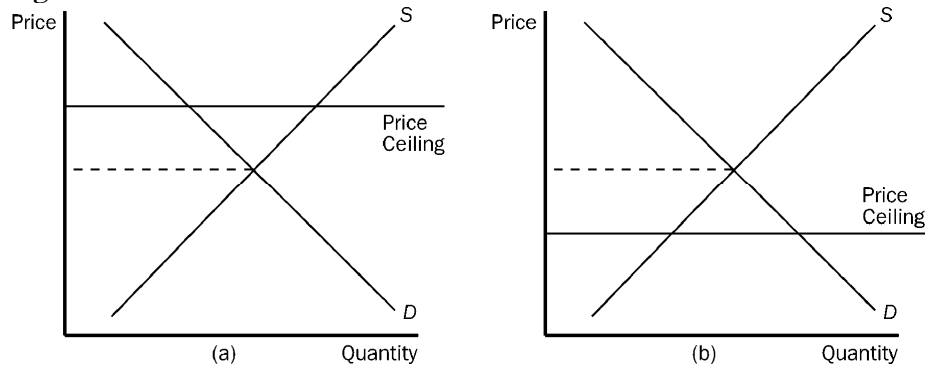
B

20. A perfectly elastic demand curve will be:

- a. vertical.
- b. horizontal.
- c. downward sloping to the right.
- d. upward sloping to the right.

B

Figure 6-1



21. Refer to Figure 6-1, which depicts the market for CDs. A binding (ie. an effective) price ceiling is shown in:

- a. panel (a).
- b. panel (b).
- c. both panel (a) and panel (b).
- d. neither panel (a) nor panel (b).

B

22. Complete the following sentence. Price ceilings and price floors:

- a. are desirable because they make markets more efficient as well as equitable.
- b. cause surpluses and shortages to emerge, since price cannot adjust to the market equilibrium price.
- c. can be enacted to restore a market to equilibrium.
- d. are imposed because they can make the poor in the economy better off without causing adverse effects.

B

23. In the supply and demand framework, the minimum wage is an example of:

- a. A price ceiling.
- b. A price floor.
- c. A free-market process.
- d. an efficient labor allocation mechanism.

B

24. Which of the following is NOT a function of prices in a market system?

- a. Prices have the crucial job of balancing supply and demand.
- b. Prices send signals to buyers and sellers to help them make rational economic decisions.
- c. Prices coordinate economic activity.
- d. Prices make an equitable distribution of goods and services among consumers possible.

D

25. Consider the topic of tax incidence. A tax imposed on the buyers of popcorn:

- a. increases the size of the popcorn market.
- b. reduces the size of the popcorn market.
- c. has no effect on the size of the popcorn market.

d. may increase, decrease, or have no effect on the size of the popcorn market.

B

26. Which is the most correct statement about the burden of a tax imposed on buyers of sugar?

- Buyers bear the entire burden of the tax.
- Sellers bear the entire burden of the tax.
- Buyers and sellers share the burden of the tax.
- The government bears the entire burden of the tax.

C

27. The equilibrium price and quantity generated by supply and demand in a market:

- maximizes the profits of producers.
- can only be achieved with government intervention.
- produces both an efficient and equitable market outcome.
- maximizes the combined total benefits and total surplus received by buyers and sellers.

D

28. Shannon buys a new CD player for her car for \$135. She receives consumer surplus of \$25 on her purchase. Her willingness to pay for that unit is:

- \$25.
- \$110.
- \$135.
- \$160.

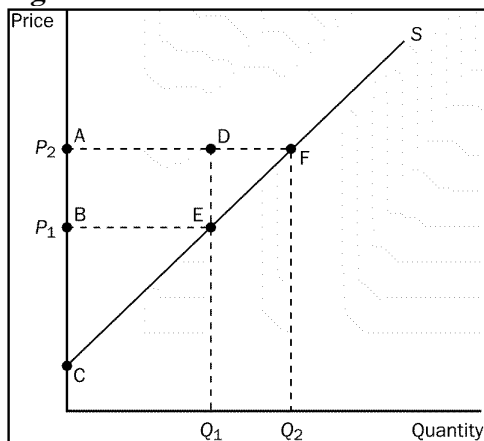
B

29. If you pay a price exactly equal to your willingness to pay, then:

- your consumer surplus is negative.
- your willingness to pay is less than your consumer surplus.
- your consumer surplus is zero.
- you place little value on the good.

C

Figure 7-3



30. Refer to Figure 7-3. Which area represents producer surplus at a price of P_1 ?

- BCE
- ACF
- ABED
- DEF
- AFEB

A

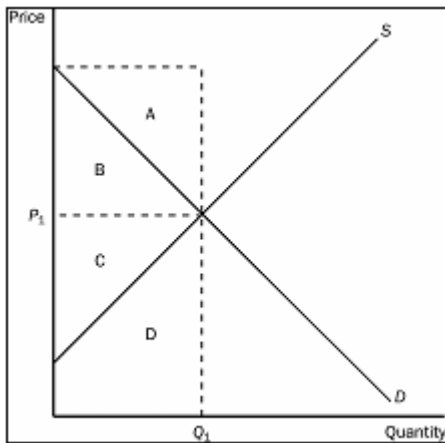


Figure 7-4

31. Refer to Figure 7-4. What area represents total surplus in the market when the price is P_1 ?

- $A + B$
- $B + C$
- $C + D$
- $A + B + C + D$

B

Table 7-4

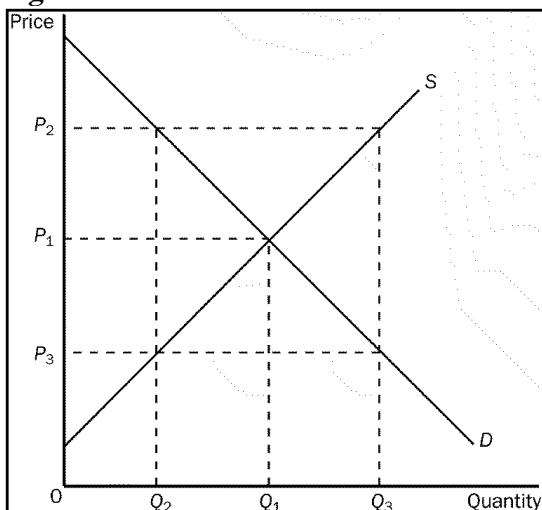
PRICE	QUANTITY DEMANDED	QUANTITY SUPPLIED
\$12.00	0	12
\$10.00	4	10
\$ 8.00	8	8
\$ 6.00	12	6
\$ 4.00	16	4
\$ 2.00	20	2

32. Refer to Table 7-4. At a price of \$4.00, total surplus would be:

- More than it would be at the equilibrium price.
- less than it would be at the equilibrium price.
- the same as it would be at the equilibrium price.
- There is insufficient information to say.

B

Figure 7-9



33. Refer to Figure 7-9. At the quantity Q_2 :

- the market is in equilibrium.
- the value to buyers is greater than the cost to sellers.
- consumer surplus plus producer surplus is maximized.
- the value to buyers is less than the cost to sellers.

B

34. To fully understand how taxes affect economic well-being, we must:
- assume that economic well-being is not affected if all tax revenue is spent on goods and services for the Canadian public.
 - know the dollar amount of all taxes raised in the country each year.
 - compare the reduced welfare of buyers and sellers to the amount of government revenue raised.
 - compare the expenditures of the provincial governments with that of the federal government.

C

35. Complete the following sentence regarding the topic of tax incidence. When a good is taxed:
- both buyers and sellers are typically worse off.
 - only buyers are worse off because they ultimately pay the majority of the tax.
 - only sellers are worse off because the government holds them responsible for collecting the tax.
 - neither buyers nor sellers are worse off, since tax revenue is used to provide goods and services that would otherwise not be provided by the market.

A

36. Which of the following is the most correct statement about tax burdens?
- A tax burden falls most heavily on the side of the market (i.e. supply or demand) that is elastic.
 - A tax burden falls most heavily on the side of the market that is inelastic.
 - A tax burden falls most heavily on the side of the market that is closer to unit elastic.
 - A tax burden is distributed independently of relative elasticities of supply and demand.

B

37. The imposition of a tax causes a deadweight loss to occur because:
- it induces the government to spend more.
 - it induces buyers to consume less and sellers to produce less than what would otherwise be the case.
 - it causes a disequilibrium in the market.
 - the loss to buyers is greater than the loss to sellers.

B

38. The views held by Arthur Laffer and Ronald Reagan that cuts in tax rates would encourage people to greatly increase the quantity of labour they supplied became known as:
- Laffer economics.
 - welfare economics.
 - supply-side economics.
 - Free-market economics.

C

39. When the consumption of a good is rivalrous, it means that:
- one person's use of the good diminishes another person's ability to use it.
 - people can be prevented from using the good.
 - The good does not have an opportunity cost.
 - everyone will be excluded from obtaining the good.

A

40. Complete the following sentence. Private goods have both of the following characteristics:
- excludable and nonrival.
 - nonexcludable and rival.
 - excludable and rival.
 - nonexcludable and nonrival.

C

41. Complete the following sentence. Common resource goods are:

- a. excludable but not rival.
- b. rival but not excludable.
- c. both excludable and rival.
- d. neither excludable nor rival.

B

42. National defense is a classic example of a public good because:

- a. private security services are very difficult to find.
- b. it is difficult to exclude people from receiving the benefits from national defense once it is provided.
- c. everyone agrees that some level of national defense is important, but only the government knows the optimal amount.
- d. if individuals were required to purchase their own armored tank, there wouldn't be enough to go around.

B

43. The government typically assumes responsibility for the provision of public goods because:

- a. private markets produce zero output of public goods.
- b. free-riders make it difficult for private markets to supply the socially optimal quantity.
- c. Markets are always better off with some government oversight.
- d. External benefits will occur to private producers.

B

44. Private markets usually fail to provide public goods such as lighthouses because:

- a. lighthouses cost too much to build relative to their benefits.
- b. government intervention makes it hard for private lighthouse owners to compete in the market.
- c. ship captains have incentives to use lighthouses without paying.
- d. lighthouses are valued very little by ship captains these days.

C

45. One way to eliminate the so-called 'Tragedy of the Commons' is to:

- a. increase law enforcement in public areas.
- b. limit access to the commons through the establishment of property rights.
- c. increase access to the commons.
- d. provide more public land for recreation.

B

46. The production of goods that involve negative externalities such as the pollution of water and air:

- a. Are viewed by economists as a necessary evil
- b. can be viewed as an example of a common resource problem.
- c. are viewed as a bastion of efficient market processes.
- d. can be solved by the application of taxes called Pigovian taxes.

D

47. If the production of a good imposes a negative externality on other parties, then the consequence is thought to be:

- a. that the socially optimal equilibrium will exceed the market equilibrium
- b. that the socially optimal equilibrium will be less than the market equilibrium
- c. technological spillovers
- d. that the Coase theorem must apply

B

48. Which of the following statements regarding externalities is false?

- a. An externality is a case of market failure
- b. Externalities can be positive or negative
- c. An externality arises when a person engages in an activity that influences the well-being of a bystander and yet neither pays nor receives any compensation for that effect.

d. Monopoly profits are a form of externality

D

49. An example of an implicit cost of production would be:

- a. The income an entrepreneur could have earned working for someone else.
- b. The cost of raw materials for producing bread in a bakery.
- c. The cost of a delivery truck in a business that rarely makes deliveries.
- d. All of the above are correct.

A

50. Economic profit is equal to:

- a. total revenue minus the explicit cost of producing goods and services.
- b. total revenue minus the opportunity cost of producing goods and services.
- c. total revenue minus the accounting cost of producing goods and services.
- d. Marginal revenue minus marginal cost.

B

51. When a firm is making a profit-maximizing production decision, which of the following basic principles of economics is likely to be most important to the firm's decision?

- a. The cost of something is what you give up to get it.
- b. A country's standard of living depends on its ability to produce goods and services.
- c. Prices rise when the government prints too much money.
- d. Governments can sometimes improve market outcomes.

A

52. The marginal product of labour is equal to the:

- a. incremental cost associated with a one unit increase in labour input.
- b. incremental profit associated with a one unit increase in labour input.
- c. increase in labour necessary to generate a one unit increase in output.
- d. increase in output obtained from a one unit increase in labour input

D

53. One would expect to observe diminishing marginal product of labour when:

- a. crowded office space reduces the productivity of new workers.
- b. workers are discouraged about the lack of help from other workers.
- c. only new workers are trained in using the most productive capital.
- d. The marginal cost curve intersects the average total cost curve.

A

54. A total-cost curve shows the relationship between the:

- a. quantity of an input used and the total cost of production.
- b. quantity of output produced and the total cost of production.
- c. total cost of production and profit.
- d. total cost of production and total revenue.

B

55. If a firm produces nothing (i.e. zero output), which of the following costs will be zero?

- a. total cost
- b. fixed cost
- c. opportunity cost
- d. variable cost

D

56. The average total cost of production tells us the:

- a. Average product of labour, if total cost is divided evenly over all the units produced.
- b. cost of a typical unit of output, if total cost is divided evenly over all the units produced.
- c. cost of the last unit of output, if total cost does not include a fixed cost component.
- d. variable cost of a firm that is producing at least one unit of output.

B

Scenario 13-4

For the following questions, assume that a given firm experiences decreasing marginal product of labour with the addition of each worker regardless of the current output level.

57. Refer to Scenario 13-4. The marginal cost curve will be:

- a. always rising as output increases.
- b. always falling as output increases.
- c. U-shaped as output increases.
- d. Constant as output increases.

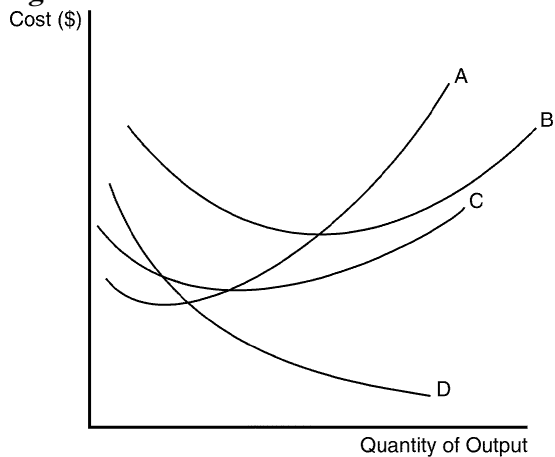
A

58. When marginal cost exceeds average total cost,

- a. average fixed cost must be rising as the level of output rises.
- b. average total cost must be rising as the level of output rises.
- c. average total cost must be falling as the level of output rises.
- d. marginal cost must be falling as the level of output rises.

B

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

Figure 13-5

59. Refer to Figure 13-5. Which of the curves is most likely to represent average variable cost? (the units on the y-axis are expressed per unit of output)

- a. A
- b. B
- c. C
- d. D

C

60. Complete the following sentence. In the long run,

- a. inputs that were fixed in the short run remain fixed.
- b. inputs that were fixed in the short run become variable.
- c. inputs that were variable in the short run become fixed.
- d. variable inputs are rarely used.

B

61. When firms are said to be 'price takers', it implies that if a firm raises its price,

- a. buyers will go elsewhere, quantity demanded falls to zero.
- b. buyers will pay the higher price in the short run.
- c. competitors will also raise their prices.
- d. firms in the industry will exercise market power.

A

62. Complete the following sentence. In a perfectly competitive market,

- a. no single buyer or seller can influence the price of the product.
- b. there is a small number of sellers.
- c. the goods offered by the different sellers are markedly different.
- d. All of the above are correct.

A

63. If a competitive firm is (i) selling 1,000 units of its product at a price of \$9 per unit and (ii) earning a positive economic profit, then:

- a. its total cost is less than \$9,000.
- b. its marginal revenue is less than \$9.
- c. its marginal cost is less than \$9.
- d. All of the above are correct.

B

Table 14-2

Quantity	Total Revenue	Total Cost
0	\$0	\$10
1	9	14
2	18	19
3	27	25
4	36	32
5	45	40
6	54	49
7	63	59
8	72	70
9	81	82

64. Refer to Table 14-2, which lists the revenue and cost schedules of the firm. At which quantity of output is marginal revenue equal to marginal cost?

- a. 3
- b. 6
- c. 8
- d. 1

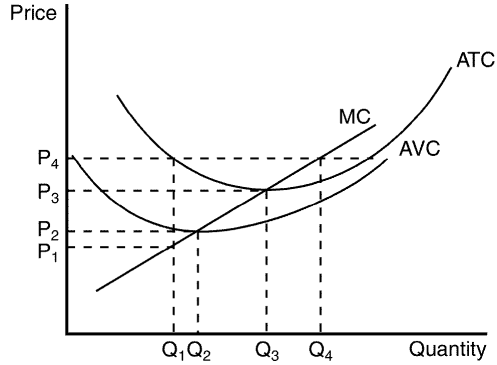
B

65. If marginal cost exceeds marginal revenue, the firm:

- a. is most likely to be at a profit-maximizing level of output.
- b. should increase the level of production to maximize its profit.
- c. must be experiencing losses.
- d. **may or may not be earning a profit.**

D

Figure 14-2



66. Refer to Figure 14-2. When price rises from P_2 to P_3 , the firm finds that:

- a. marginal cost exceeds marginal revenue at a production level of Q_2 .
- b. if it produces at output level Q_3 it will earn a positive profit.
- c. **expanding output beyond Q_4 would leave the firm with losses.**
- d. All of the above are correct.

C

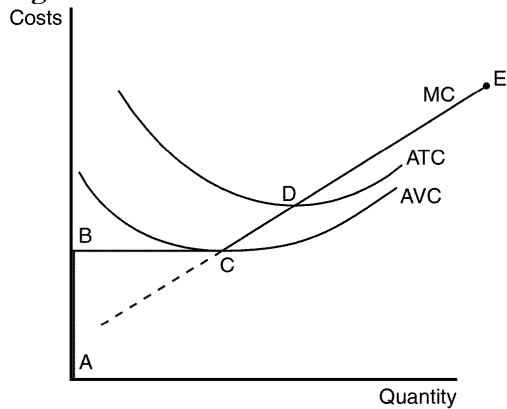
67. Refer to Figure 14-2. When price falls from P_3 to P_1 , the firm finds that:

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

D

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



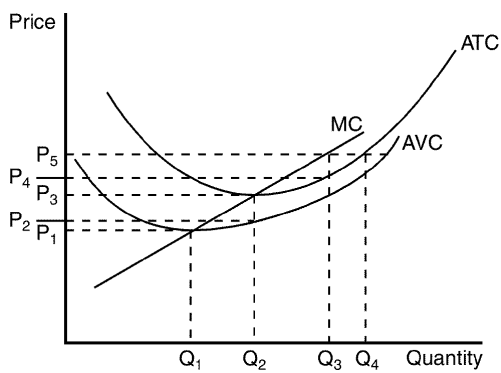
68. Refer to Figure 14-3. Which line segment best reflects the short-run supply curve for this firm?

- a. BCD
- b. CD
- c. DE
- d. **None of the above are correct.**

D

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

Figure 14-5



69. Refer to Figure 14-5. When market price is P_5 , a profit-maximizing firm's profits can be represented by the area:

- $P_5 \times Q_3$.
- $(P_5 - P_3) \times Q_2$.
- $(P_5 - P_4) \times Q_3$.
- When market price is P_5 there are no profits.

C

70. Refer to Figure 14-5. Firms would be encouraged to enter this market for all prices that exceed:

- P_1 .
- P_2 .
- P_3 .
- None of the above are correct.

C

71. Suppose that a perfectly competitive firm is selling its output for \$10 per unit and it is maximizing its profit. Now the price rises to \$14, and the firm makes whatever adjustments are necessary to maximize its profit at the now-higher price. Once the firm has adjusted, which of the following statements is correct?

- The firm's marginal revenue is lower than it was previously.
- The firm's marginal cost is lower than it was previously.
- The firm's quantity of output is higher than it was previously.
- All of the above are correct.

C

72. 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.
- quantity supplied by the typical firm at a given price in the market.
- sum of the prices charged by each of the 1,000 individual firms.
- sum of the quantities supplied at a given price by each of the 1,000 individual firms.

D

73. When new firms have an incentive to enter a competitive market, their entry will:

- increase the price of the product.
- drive down profits of existing firms in the market.
- shift the market supply curve to the left.
- All of the above are correct.

B

74. Assuming an equilibrium situation, a monopoly's marginal cost will:

- be less than its average fixed cost.
- be less than the price per unit of its product.
- exceed its marginal revenue.
- equal its average total cost.

B

75. A fundamental source of monopoly market power arises from:

- perfectly elastic demand.

- b. perfectly inelastic demand.
- c. barriers to entry.
- d. the availability of "free" natural resources, such as water or air.

C

76. Drug companies are allowed under certain circumstances to hold monopoly power for the drugs they discover in order to:

- a. allow drug companies to charge a price that is equal to their marginal cost.
- b. discourage new firms from entering the drug market.
- c. encourage research, development, and innovation.
- d. All of the above are correct.

C

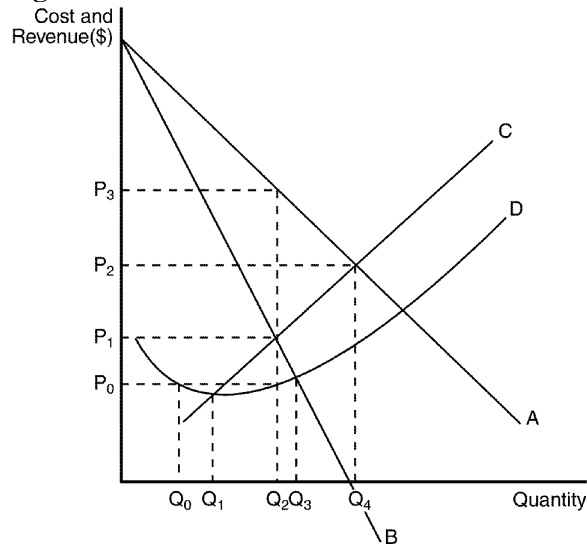
77. The key difference between a competitive firm and a monopoly firm is the ability to affect:

- a. the level of competition in the market.
- b. the level of production.
- c. inputs in the production process.
- d. the price of its output.

D

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

Figure 15-3



78. Refer to Figure 15-3. A profit-maximizing monopoly's total revenue is equal to:

- $P_3 \times Q_2$.
- $P_2 \times Q_4$.
- $(P_3 - P_0) \times Q_2$.
- $(P_3 - P_0) \times Q_4$.

A

79. Refer to Figure 15-3. A profit-maximizing monopoly's profit is equal to:

- $P_3 \times Q_2$.
- $P_2 \times Q_4$.
- $(P_3 - P_0) \times Q_2$.
- $(P_3 - P_0) \times Q_4$.

C

80. Refer to Figure 15-3. At the profit-maximizing level of output:

- marginal revenue is equal to P_3 .
- marginal cost is equal to P_3 .
- Price is equal to P_3 .
- None of the above are correct.

C

81. Complete the following sentence. If a market is monopolized, in equilibrium it:

- always maximizes total economic well-being (total surplus)
- tends to produce more than a perfectly competitive firm.
- generally fails to maximize total economic well-being (total surplus)
- generally fails to maximize producer surplus.

C

82. When the government intervenes in markets with externalities, it does so in order to:
- increase production when negative externalities are present.
 - reduce production when positive externalities are present.
 - make certain all benefits are received by market participants.
 - better coordinate the action of buyers and sellers.
 - None of the above are correct.

E

83. A fertilizer plant emits a very foul odor during the production process. If the government forces the plant to internalize this negative externality, then the:
- supply curve for fertilizer would shift to the right (down).
 - supply curve for fertilizer would shift to the left (up).
 - demand curve for fertilizer would shift to the right (down).
 - demand curve for fertilizer would shift to the left (up).

B

84. Wages in developing countries are typically quite low because in these countries:
- workers are not unionized.
 - workers are lazy.
 - the level of capital is quite small, and so worker productivity is quite low.
 - people are poor, so there are very few jobs.

C

85. The income distribution in a society is largely:
- determined by the government's policies.
 - determined by business decisions.
 - determined by factors that determine wages.
 - Independent of market allocations of resources.
 - determined by luck.

C

86. As a general rule, the government's anti-poverty programs as a group:
- Encourage saving among recipient groups.
 - Impose a very low marginal tax rate on income.
 - Are only made available to those with no other source of income.
 - Impose disincentives to work.

D

87. All of the following are problems with measuring inequality EXCEPT:
- the measurements usually do not include in-kind transfers.
 - the measurements use lifetime incomes rather than annual incomes.
 - the measurements should use permanent income, not including transitory changes.
 - poverty is long term for relatively few families.

D

88. As measured by the low-income cutoff rate (LICO), the highest incidence of poverty in Canada occur among:
- elderlies.
 - unattached individuals.
 - lone parent families.
 - children.

C

89. Economists refer to the regular, expected pattern of income variation over a person's lifetime as the:
- Life cycle effect.

- b. Life pattern effect.
- c. Cyclical redundancy effect.
- d. Periodic cycle effect.

A

90. The philosophy for redistribution proposed by John Rawls in his book *A Theory of Justice* is called the:

- a. "veil of ignorance" criterion.
- b. Tradeoff between equity and efficiency criterion
- c. Maximin criterion.
- d. Egalitarian principle.

C

91. How does the equilibrium in a perfectly competitive market compare to the equilibrium in a monopolized market?

- a. The price is higher in the monopoly market, but the equilibrium output levels are the same.
- b. The monopolist can earn a profit, but the competitive firm can never do so
- c. In the long run in the case of a competitive market, price = average total costs, but this is not true for the monopolist.
- d. The quantity is lower in the monopoly market, but the price levels are the same

C

92. Which of the following statements is false?

- a. Competitive industries tend to generate higher levels of total surplus than is the case for monopolists.
- b. A monopolized industry may possibly be more innovative than a perfectly competitive one.
- c. For the monopoly firm, there is a margin of maneuver for price discrimination, but this is not the case for a competitive industry.
- d. If a competitive industry suddenly becomes a monopoly, both consumer surplus and producer surplus will fall.

D

93. If a firm in any type of industry is not producing at a level of output where marginal revenue is equal to marginal cost, then one can conclude that:

- a. Profits are not as high as possible
- b. Losses are being made
- c. The firm should expand its output level
- d. The firm is producing at the most cost efficient level of output.

A

94. In the short run, a firm will shut down all operations immediately if:

- a. Marginal cost exceeds marginal revenue
- b. Total revenue is less than total variable costs
- c. Total revenue is less than total total costs
- d. Total revenue is less than total fixed costs

B

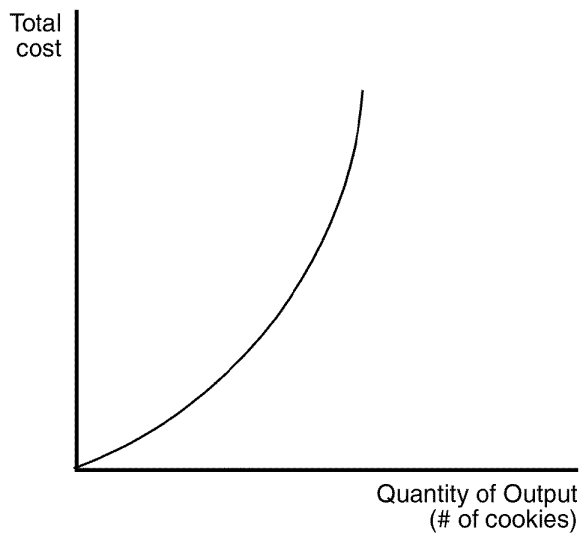
95. Which of the following statements about a production function is correct for a firm that uses labour to produce output?

- a. The production function depicts the relationship between the quantity of labour and the quantity of output.
- b. The slope of the production function measures marginal cost.
- c. The quantity of output is measured along the horizontal axis.
- d. All of the above are correct.

A

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

Figure 13-2



96. Refer to Figure 13-2. What can we conclude about the cost structure of this firm?

- There are no diminishing returns
- Fixed costs are equal to zero
- There must be economies of scale in production
- the marginal cost curve intersects the average total cost curve at its lowest point

B

97. Refer to Figure 13-2. Which of the statements below is most consistent with the shape of the total cost curve?

- Producing an additional cookie is always more costly than producing the previous cookie.
- Total production of cookies decreases with additional units of input.
- Producing additional cookies is equally costly, regardless of how many cookies are already being produced.
- Producing additional cookies becomes increasingly costly only when the number of cookies already being produced is large.

A

98. If a firm's technology of production is characterized by economies of scale, then:

- A sound economic policy would be to allow it to merge with other firms
- A sound economic policy would be to break it up
- Long run average costs must be rising as the level of output rises
- It could encounter diminishing marginal product if it were to expand output

A

Table 13-1

Measures of Cost for ABC Inc. Widget Factory			
Quantity of Widgets	Variable Costs	Total Costs	Fixed Costs
0			\$10
1	\$ 1		
2	\$ 3	\$13	
3	\$ 6	\$16	
4	\$10		
5		\$25	
6	\$21		\$10

99. Refer to Table 13-1. The average variable cost of producing four widgets is:

- \$2.00
- \$2.50
- \$3.33
- \$5.00

B

100. Refer to Table 13-1. The marginal cost of producing the sixth widget is:

- a. \$1.00.
- b. \$3.50.
- c. \$5.00.
- d. \$6.00.

D