Exam

Name_____

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

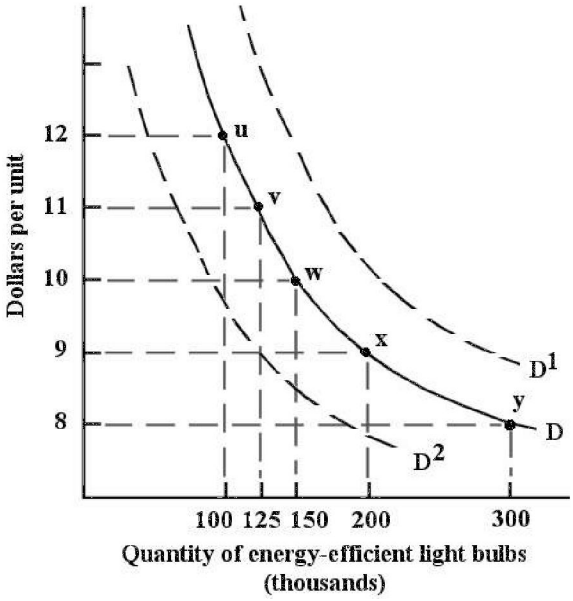

FIGURE 3-1

1) Refer to Figure 3-1. The movement along the demand curve, *D*, from point *v* to point *x*, could be caused by 1) _____
   A) an increase in household income, which allows consumers to purchase more light bulbs.
   B) a change in preferences away from ordinary light bulbs to energy-efficient light bulbs.
   C) an expectation that new, government regulations will require the use of energy-efficient light bulbs only.
   D) a change in the price of energy-efficient light bulbs.
   E) a change in the price of ordinary light bulbs.

2) An improvement in the technology used to produce solar panels will 2) _____
   A) lead to a leftward shift of the demand curve.
   B) lead to a rightward shift of the demand curve.
   C) lead to a rightward shift in the supply curve.
   D) lead to a leftward shift in the supply curve.
   E) have no effect on the supply curve for solar panels.

3) Suppose we observe an increase in the price of good A and an increase in the quantity of good A exchanged. Which of the following is a likely explanation? 3) _____
   A) The "law of supply" is violated.
   B) The supply of good A has increased.
   C) There is an excess supply of good A.
   D) The "law of demand" is violated.
   E) The demand for good A has increased.

4) Suppose that the price of wheat has fallen from $3 to $2 per bushel and that the price of newsprint has fallen from $200 to $100 per tonne. The relative price of wheat in terms of newsprint 4) _____
A) remained constant.
B) is completely unrelated.
C) cannot be determined from the above data.
D) has risen.
E) has fallen.

5) 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 5) _____
A) 15 percent, and total expenditure will fall.
B) 50 percent , and total expenditure will fall.
C) 13.3 percent, and total expenditure will rise.
D) 12 percent, and total expenditure will rise.
E) 15 percent, and total expenditure will rise.

6) A vertical demand curve shows that the own-price elasticity of demand is 6) _____
A) not defined.
B) zero.
C) less than one.
D) infinity.
E) unity.

7) If demand is inelastic, an increase in price will cause total expenditure to 7) _____
A) be negative.
B) decrease.
C) fall to zero.
D) remain constant.
E) increase.

8) A value of infinity for the elasticity of supply of some product implies that 8) _____
A) the supply curve is horizontal.
B) the product will be supplied at any price.
C) supply is very unresponsive to price.
D) no product will be supplied at <u>any</u> price.
E) the supply curve is vertical.

9) If the demand for some good fluctuates, but supply is constant, then which of the following combinations would generally yield the greatest price fluctuations? 9) _____
A) small demand fluctuations and a unit elastic supply
B) large demand fluctuations and inelastic supply
C) large demand fluctuations and elastic supply
D) small demand fluctuations and inelastic supply
E) small demand fluctuations and elastic supply

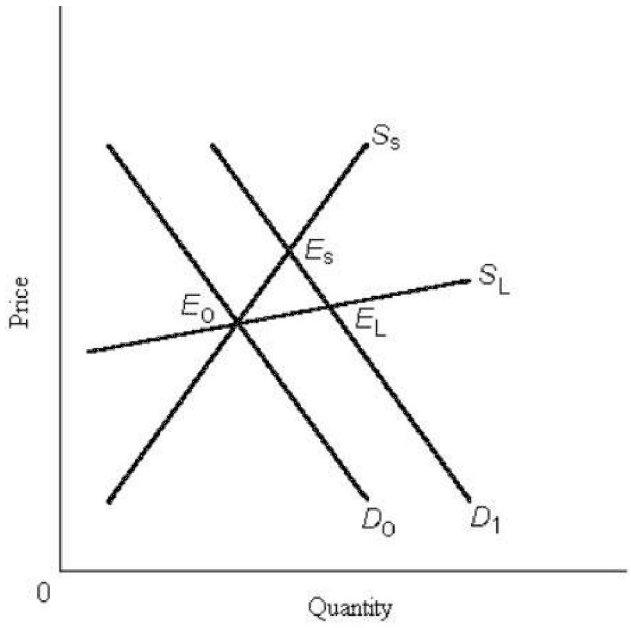

FIGURE 4-3

10) Refer to Figure 4-3, which shows a demand shift and the short-run and long-run supply curves for some product. In the new long-run equilibrium at E_L, producers' revenue 10) _____
A) could be higher or lower than at E_0, depending on the price elasticity of demand.
B) is unambiguously lower than at E_0.
C) could be higher or lower than at E_S, depending on the price elasticity of demand.
D) is unambiguously higher than at E_S.
E) is unambiguously lower than at E_S.

11) Consumers will bear a larger burden of an excise tax if 11) _____
A) both demand and supply are relatively inelastic.
B) demand is relatively inelastic and supply is relatively elastic.
C) the tax is collected by firms rather than remitted directly to the government by consumers.
D) both demand and supply are relatively elastic.
E) demand is relatively elastic and supply is relatively inelastic.

12) Income elasticity of demand measures the extent to which 12) _____
A) quantity demanded changes when there is a change in price.
B) the quantity demanded of a good changes when income changes.
C) one household's income changes when there is a change in the income of another household.
D) the price of a good changes when there is a change in income.
E) real household income changes when there is a change in the price of a good.

13) An increase in income will 13) _____
A) always increase the demand for turnips.
B) increase the supply of turnips.
C) decrease the demand for turnips if turnips have a very low price.
D) increase the demand for turnips if turnips are inferior goods.
E) increase the demand for turnips if turnips are normal goods.

Consider the following data for a hypothetical economy.

Year	Average Household Income ($)	Price of Transit Passes	Qty Demanded of Transit Passes	Price of Gasoline ($/litre)	Qty Demanded of Gasoline (millions of litres)
2009	80 000	60	99 000	0.95	1940
2010	80 000	60	101 000	1.05	2060

TABLE 4-5

14) Refer to Table 4-5. The cross-price elasticity of demand for transit passes in terms of the price of gasoline is _____. A rise in the price of gasoline causes the demand curve for transit passes to shift to the _____. 14) _____
A) 5.0; right B) 0.33; left C) 0.33; right D) 0.2; left E) 0.2; right

15) The price of a good or a service can be determined by free interaction of demand and supply or by a government price regulation. One important difference between these two price-determining methods is 15) _____
A) one is capitalist and the other is communist.
B) there are no shortages or surpluses at the free-market equilibrium price.
C) that a regulated price above the equilibrium price will always result in shortages.
D) the government is in the best position to know the needs of the people.
E) regulated prices are fairer since more people can then afford the goods or services.

16) An excess demand for some product is the same thing as 16) _____
A) a surplus.
B) an excess supply.
C) a shortage.
D) price ceiling.
E) back market.

17) Assuming that the long-run supply of housing is highly elastic, the imposition of binding rent controls will lead to 17) _____
A) a worsening of the housing shortage over time.
B) no significant change in the housing shortage over time.
C) only a temporary housing shortage.
D) the price of rental housing to revert back to its free-market equilibrium level.
E) a reduction in the housing shortage over time.

18) Consider a market that is in equilibrium with a market-clearing price. *Economic surplus* is shown by 18) _____
A) the area to the right of the market-clearing price and quantity.
B) the area below the supply curve up to the equilibrium quantity and below the demand curve beyond the equilibrium quantity.
C) the area that is both below the demand curve and above the supply curve.
D) the area that is both above the demand curve and below the supply curve.
E) the intersection of the supply and demand curves.

Demand and Supply Schedules for Chocolate Bars

Price ($)	Quantity Demanded (thousands per week)	Quantity Supplied (thousands per week)
2.00	1500	2100
1.80	1600	2050
1.60	1700	2000
1.40	1800	1950
1.20	1900	1900
1.00	2000	1850
0.80	2100	1800
0.60	2200	1750
0.40	2300	1700

TABLE 5-1

19) Refer to Table 5-1. Suppose that as a public health measure the government wants to reduce the number of chocolate bars consumed by children. If the government imposes a price of $1.60 per chocolate bar, how many fewer chocolate bars will be consumed each week, relative to the competitive equilibrium? 19) _____

A) 1800 B) 300 C) 2000 D) 1700 E) 200

20) Economists usually assume that consumers 20) _____

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

	Toffee (bars)		Cashews (bags)	
Units	Marginal Utility	Total Utility	Marginal Utility	Total Utility
1	10	10	12	12
2	8	18	10	22
3	5	23	7	29
4	3	26	5	34
5	1	27	2	36
6	0	27	1	37
7	0	27	0	27

TABLE 6-1

21) Refer to Table 6-1. If the prices of toffee bars and bags of cashews are both $1 and this consumer has $7 per week to spend on these two snacks, how many of each will he/she purchase to maximize utility? 21) _____

A) 6 toffee bars and 1 bag of cashews.
B) 2 toffee bars and 5 bags of cashews.
C) 3 toffee bars and 4 bags of cashews.
D) 4 toffee bars and 3 bags of cashews.
E) 5 toffee bars and 2 bags of cashews.

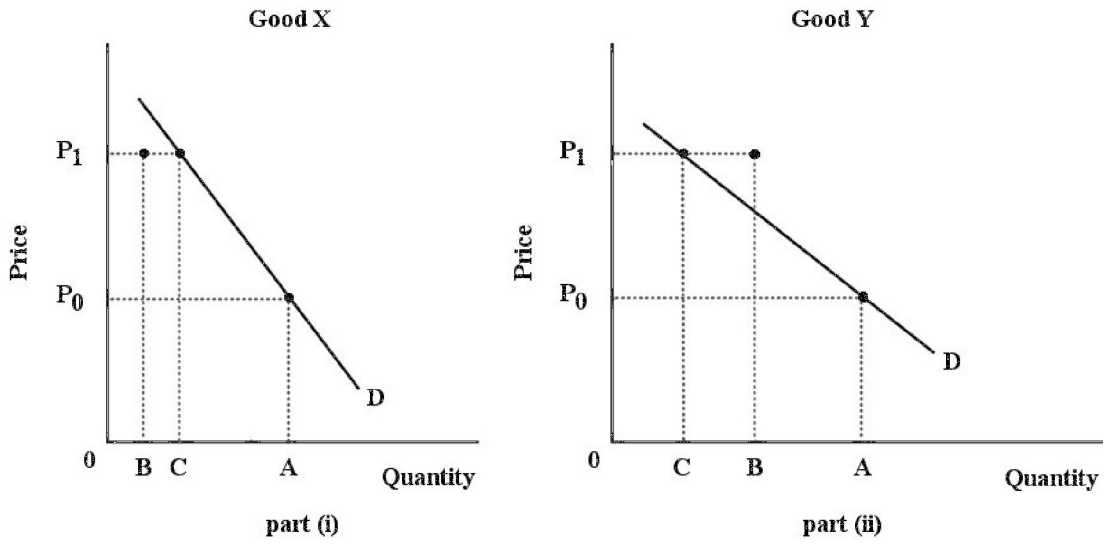

FIGURE 6-4

22) Refer to Figure 6-4. For both goods, the price increases from P_0 to P_1. The substitution effect is illustrated by the change in quantity demanded from A to B; the income effect is illustrated by the change in quantity demanded from B to C. Good Y is certainly a(n) _____ good. 22) _____

A) normal B) luxury C) inferior D) Giffen E) necessity

23) The substitution effect is 23) _____

A) the change in quantity demanded that occurs when one good is substituted for another.
B) the change in quantity demanded that occurs as a result of a change in absolute prices, with real income held constant.
C) the change in the relative prices of two or more goods.
D) the change in quantity demanded that occurs as a result of a change in relative prices with money income held constant.
E) the change in quantity demanded that occurs as a result of a change in relative prices with real income held constant.

24) The total value that Doug places on his consumption of computer games equals 24) _____

A) his marginal utility multiplied by quantity demanded.
B) price times marginal value.
C) the price multiplied by quantity demanded.
D) the total amount he pays for all the games he purchases.
E) his total expenditure on computer games plus his consumer surplus.

The table below shows the total value (in dollars) that Andrew gets from playing 9-hole rounds of golf.

Rounds of Golf per Month	Total Value ($)
0	0
1	40
2	70
3	92
4	108
5	120
6	130
7	130

TABLE 6-3

25) Refer to Table 6-3. If the price of a 9-hole round of golf is $22, then Andrew's consumer surplus will be 25) _____
A) $22. B) $108. C) $202. D) $26. E) $92.

26) For your typical consumption levels of water and diamonds, the good with the higher marginal utility is _____; the good with the higher total utility is _____; and the good with the greatest consumer surplus is _____. 26) _____
A) diamonds; water; diamonds
B) water; water; water
C) water; diamonds; water
D) water; water; diamonds
E) diamonds; water; water

27) Economists use the notation Q = *f*(L,K) to describe 27) _____
A) the flow of labour (L) and capital (K) services that are available when output is (Q).
B) the financial relationship between the inputs that a firm uses and the outputs that it produces.
C) the technological relationship between the inputs that a firm uses and the outputs that it produces.
D) the arithmetic relationship between the outputs that a firm uses and the inputs that it produces.
E) the level of output (Q) required to fully employ labour (L) and capital (K).

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

28) Refer to Table 7-2. The accounting profits for this firm are 28) _____
A) $63 500. B) $32 700. C) $32 300. D) $71 500. E) $63 100.

29) With regard to economic decision making for firms, the short run is 29) _____
A) a definite number of months.
B) a period over which the quantities of all factors of production and technology are variable.
C) a period over which the quantities of all factors of production are variable but technology is fixed.
D) less than one year.
E) a period over which the quantity of at least one significant factor of production is fixed.

30) Consider a firm in the short run. Average product is at its maximum when 30) _____
A) the maximum quantity of the variable input is employed.
B) average product equals marginal product and marginal product is falling.
C) total product is maximized.
D) marginal product is maximized.
E) diminishing returns cease to operate.

31) Consider a firm in the short run. When the total-product curve is increasing at an increasing rate 31) _____
A) marginal product is positive and increasing.
B) marginal product is positive but declining.
C) average product is zero.
D) the marginal-product curve lies below the average-product curve.
E) average product is falling.

32) Sport-fishermen on the Campbell River in British Columbia are catching fewer fish and are having to fish many more hours to catch them. However, the *total* number of fish caught on the river continues to increase. The river is experiencing 32) _____
A) constant marginal returns.
B) diminishing marginal returns.
C) increasing marginal returns.
D) increasing average returns.
E) diminishing total returns.

33) The law of diminishing returns states that if increasing quantities of a variable factor are applied to a given quantity of fixed factors, then 33) _____
A) the AP will eventually decrease with constant MP.
B) the MP will eventually decrease with constant AP.
C) TP will eventually begin to fall.
D) the MP and the AP of the variable factor will eventually decrease.
E) the AP will eventually decrease, but only if TP is held constant.

The table below provides information on output per month and short-run costs for a firm producing outdoor wooden lounge chairs.

Q	TFC	TVC	TC
5	200	200	400
10	200	220	420
15	200	240	440
20	200	260	460
25	200	350	550
30	200	810	1010

TABLE 7-5

34) Refer to Table 7-5. Given the information in the table about short-run costs, this firm would minimize the average variable cost of production when producing 34) _____
A) 25 chairs. B) 10 chairs. C) 20 chairs. D) 30 chairs. E) 15 chairs.

35) When a plant is operating at the level of output where its short-run average total cost is at its minimum, 35) _____
A) average fixed cost is at a minimum.
B) average variable cost is at a minimum.
C) more of the variable factor of production should be employed.
D) the plant is operating at its capacity.
E) marginal cost is at a minimum.

36) Consider a firm that uses only labour and capital as inputs. At the present use of labour and capital, the *MP* of labour is four times the *MP* of capital, and the price of labour is twice the price of capital. In order to minimize its costs, the firm should 36) _____
A) decrease capital and increase labour.
B) substitute capital for labour until their marginal products are equal.
C) stay at its present factor mix.
D) decrease both capital and labour.
E) increase both labour and capital.

37) Consider a firm that uses only labour and capital. At the present use of labour and capital, the *MP* of labour is twice the *MP* of capital, and the price of labour is four times the price of capital. In order to minimize its costs, the firm should 37) _____
A) increase capital and decrease labour.
B) increase both labour and capital.
C) maintain its present factor mix.
D) decrease both capital and labour.
E) decrease capital and increase labour.

38) Any point representing a cost and output combination that is below the long-run average cost curve 38) _____
A) may represent actual cost and production levels in the short run.
B) represents less efficient cost levels than points on the long-run average cost curve.
C) is attainable only when all factors are variable.
D) is attainable if the firm minimizes its costs according to the "principle of substitution".
E) represents unattainable cost levels.

39) Which of the following statements concerning long-run and short-run cost curves is correct? 39) _____
A) The long-run average cost curve envelops a whole family of short-run marginal cost curves.
B) Both the long-run and short-run average cost curves show the lowest cost of producing any output when all factors are variable.
C) The short-run average cost curve is tangent to the long-run average cost curve for all levels of output of the fixed factor.
D) A short-run average cost curve can fall below the long-run average cost curve.
E) The minimum point of the long-run average cost curve will correspond to the minimum point on a single short-run average cost curve.

40) The creation of a new product is called 40) _____
A) a rise in productivity.
B) investment.
C) product innovation.
D) creative destruction
E) process innovation.

Answer Key
Testname: MOCK

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