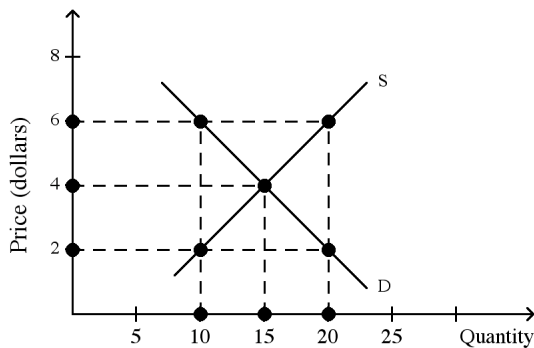


**ECON 201 Final Exam -- Spring 2007****Multiple Choice**

*Identify the choice that best completes the statement or answers the question; each is worth two points.*

- \_\_\_\_\_ 1. If people want more cars than there are cars available, then
- cars are scarce.
  - there is a surplus of cars.
  - there is a decreased supply of cars.
  - none of the above
- \_\_\_\_\_ 2. The \_\_\_\_\_ the opportunity cost of doing something, the \_\_\_\_\_ likely a person will do that something.
- lower; less
  - lower; more
  - higher; more
  - higher; less
  - b and d
- \_\_\_\_\_ 3. Through war, many of the factories in country 1 are destroyed and many of its people are killed. As a result, the country's
- production possibilities frontier (PPF) after the war is probably farther away from the origin than its PPF before the war.
  - PPF after the war is probably closer to the origin than its PPF before the war.
  - PPF after the war is probably the same PPF as before the war.
  - ability to produce goods and services has increased.
  - b and d
- \_\_\_\_\_ 4. If Carl and Jacob are not currently trading \$30 for a book, it may be because
- transaction costs are too high.
  - transaction costs are too low.
  - at least one of the two individuals does not think he would be made better off by the trade.
  - both individuals think they will be made worse off by the trade.
  - a, c, and d
- \_\_\_\_\_ 5. Which of the following is an illustration of the law of increasing opportunity costs?
- As more cars are produced, the opportunity cost of each additional car is greater than for the preceding unit.
  - As more cars are produced, the opportunity cost of each additional car is less than for the preceding unit.
  - As more cars are produced, the opportunity cost of each additional car is the same as for the preceding unit.
  - People pay lower prices for cars the higher the costs of producing cars.
- \_\_\_\_\_ 6. Productive inefficiency implies that
- it is possible to obtain gains in one area without losses in another.
  - it is impossible to obtain gains in one area without losses in another.
  - there are too many resources.
  - there are too few resources.
  - none of the above

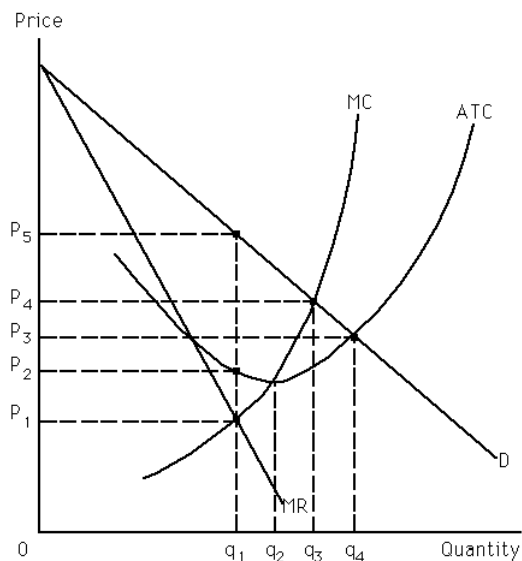
- \_\_\_\_\_ 7. At a price of \$15, Marta buys 3 CD's per month. When the price increases to \$20, Marta buys 2 CD's per month. Luz says that Marta's demand for CD's has decreased. Is Luz correct?
- Yes, Luz is correct.
  - No, Luz is incorrect. Marta's demand has increased.
  - No, Luz is incorrect. Marta's quantity demanded has decreased, but her demand has stayed the same.
  - No, Luz is incorrect. Marta's quantity demanded has increased, but her demand has stayed the same.
  - No, Luz is incorrect. Marta's quantity demanded has decreased and her demand has increased.
- \_\_\_\_\_ 8. As the price of good X rises, the demand for good Y falls. Therefore, goods X and Y are
- substitutes.
  - normal goods.
  - complements.
  - inferior goods.
  - none of the above

**Exhibit 3-4**

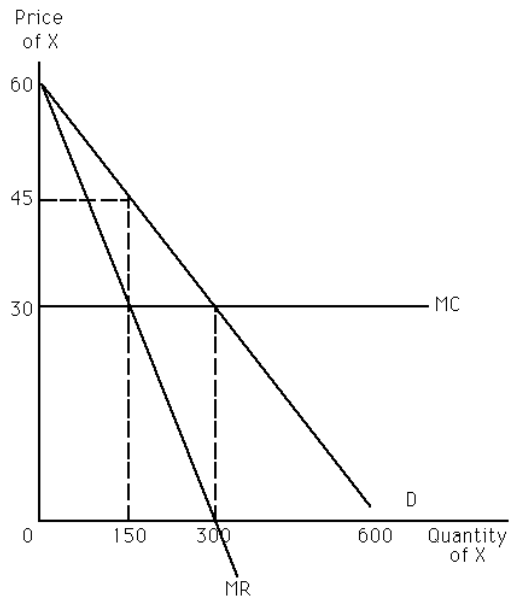
- \_\_\_\_\_ 9. Refer to Exhibit 3-4. A price of \$4 in the market will result in a
- shortage of 10 units.
  - surplus of 10 units.
  - surplus of 5 units.
  - shortage of 5 units.
  - none of the above
- \_\_\_\_\_ 10. In the supply-and-demand diagram of the market for peanut butter, the equilibrium point has moved down and to the right. What could have caused this?
- a fall in the price of peanuts
  - a rise in the price of peanuts
  - a rise in income, assuming that peanut butter is an inferior good
  - a shift in preferences toward peanut butter
  - none of the above

- \_\_\_\_\_ 11. Jack is trying to sell his house. At the currently listed price the house has been up for sale for a year. We can be fairly sure that
- the currently listed price is below the equilibrium price.
  - the currently listed price is above the equilibrium price.
  - the currently listed price is the equilibrium price.
  - Jack will soon sell his house.
  - none of the above
- \_\_\_\_\_ 12. At a price for which quantity supplied exceeds quantity demanded, a \_\_\_\_\_ is experienced, which pushes the price \_\_\_\_\_ toward its equilibrium value.
- surplus; downward
  - surplus; upward
  - shortage; downward
  - shortage; upward
- \_\_\_\_\_ 13. If a firm earns normal profit, then it has generated revenues
- equal to the sum of implicit and explicit costs.
  - greater than total opportunity costs.
  - sufficient to cover explicit costs, but not implicit costs.
  - sufficient to cover implicit costs, but not explicit costs.
- \_\_\_\_\_ 14. If the owners of a firm earn accounting profit, it follows that
- they will earn economic profit, too.
  - their explicit costs are greater than their implicit costs.
  - their implicit costs are greater than their explicit costs.
  - they will not earn economic profit.
  - none of the above
- \_\_\_\_\_ 15. Which best describes market coordination?
- The manager of a restaurant tells a waiter to help the people at table 2.
  - The price and profit of good X rise, and people start to produce more of good X.
  - John goes to work each morning.
  - Susan pays her income taxes.
  - a and c
- \_\_\_\_\_ 16. A "price taker" is a firm that
- does not have the ability to control the price of the product it sells.
  - does have the ability, although limited, to control the price of the product it sells.
  - can raise the price of the product it sells and still sell some units of its product.
  - sells a differentiated product.
  - none of the above
- \_\_\_\_\_ 17. A perfectly competitive firm will increase its production as long as
- total revenue is less than total cost.
  - the total revenue curve is rising.
  - marginal revenue is greater than marginal cost.
  - the marginal revenue curve is rising.

- \_\_\_\_\_ 18. Resource allocative efficiency occurs when a firm
- minimizes costs of production yet charges the highest possible price.
  - produces the quantity of output at which price exceeds average total cost by the greatest amount.
  - produces the quantity of output at which price equals marginal cost.
  - produces the quantity of output at which price equals average total cost.
  - produces the quantity of output at which price equals average variable cost.
- \_\_\_\_\_ 19. A perfectly competitive market is initially in long-run competitive equilibrium. Then, market demand falls. This causes the marginal revenue curves for existing firms to shift \_\_\_\_\_ and for these firms to produce \_\_\_\_\_ output. Some of the existing firms will end up \_\_\_\_\_.
- upward, more, increasing their plant size
  - downward, less, exiting the market
  - downward, more, purchasing more capital equipment
  - upward, less, cutting fixed costs
  - none of the above
- \_\_\_\_\_ 20. If a monopolist wishes to sell an additional unit of the good, then
- it must raise its price to signal consumers that its product is now a more important part of their budget, and they will purchase more.
  - like a competitive firm, it can simply make more output available and not lower price.
  - it must lower price.
  - it can raise price and not worry that sales will decrease.
  - a and d

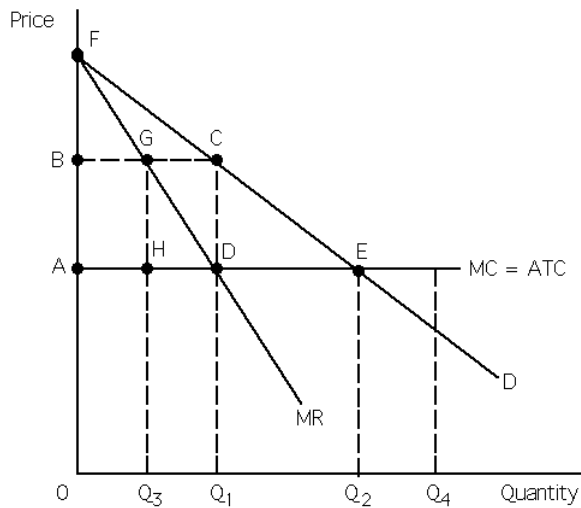
**Exhibit 9-3**

- \_\_\_\_\_ 21. Refer to Exhibit 9-3. If this industry were perfectly competitive, the price would be
- P<sub>1</sub>.
  - P<sub>2</sub>.
  - P<sub>3</sub>.
  - P<sub>4</sub>.
  - P<sub>5</sub>.

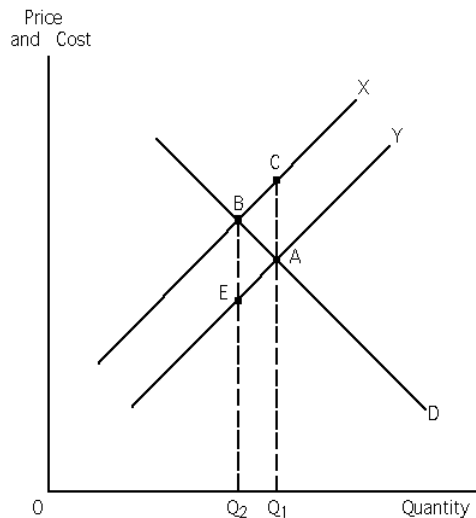
**Exhibit 9-7**

- \_\_\_\_\_ 22. Refer to Exhibit 9-7. Let D be the demand curve facing a perfectly price-discriminating monopolist. The lowest price this monopolist will charge is
- \$60.
  - \$45.
  - \$30.
  - \$0.
- \_\_\_\_\_ 23. The key behavioral assumption of the cartel theory is that oligopolists in an industry
- try to maximize sales instead of profits.
  - act as if they are perfect competitors.
  - act in a manner consistent with there being only one firm in the industry.
  - try to create a demand for their products by way of advertising.
  - none of the above
- \_\_\_\_\_ 24. In the long run, new firms will enter a monopolistically competitive industry until
- minimum average total cost is achieved.
  - all firms are incurring losses.
  - economic profits in the industry are zero.
  - a and b

## Exhibit 9-10



- \_\_\_\_\_ 25. Refer to Exhibit 9-10. The single-price monopolist will produce which quantity of output?
- $Q_2$
  - $Q_1$
  - $Q_3$
  - $Q_4$
  - none of the above
- \_\_\_\_\_ 26. Which of the following is *not* an assumption of oligopoly?
- There are few sellers.
  - There are few buyers.
  - Firms produce and sell either homogeneous or differentiated products.
  - There are significant barriers to entry.
  - b and c
- \_\_\_\_\_ 27. A side effect of an action that adversely affects the well-being of others is called a
- complement.
  - supplement.
  - negative externality.
  - marginal cost.
- \_\_\_\_\_ 28. Suppose the production of a good results in negative externalities. If all costs are taken into account, then
- output will be at a lower level than if all costs are not taken into account.
  - output will be at a lower level than the socially optimal level.
  - the marginal private cost curve will lie above and to the left of the marginal social cost curve.
  - a and b
  - a, b, and c

**Exhibit 16-1**

- \_\_\_\_\_ 29. Refer to Exhibit 16-1. If the exhibit represents a negative externality situation, the benefit of expanding output from  $Q_2$  to  $Q_1$  is the area of
- ABC.
  - $Q_2BCQ_1$ .
  - $Q_2BAQ_1$ .
  - $Q_2EAQ_1$ .
- \_\_\_\_\_ 30. When negative externalities are involved, the market is said to
- fail, because it underproduces the good connected with the negative externality.
  - fail, because it overproduces the good connected with the negative externality.
  - succeed, because it produces the socially optimal quantity of the good connected with the negative externality.
  - be "in optimum," because the equilibrium fully adjusts for the negative externality.
- \_\_\_\_\_ 31. The primary difference between private goods and public goods is that
- private goods are consumed by private individuals whereas public goods are not consumed by private individuals.
  - private goods often yield externalities but public goods do not.
  - property rights can be assigned to public goods but not to private goods.
  - public goods are nonrivalrous in consumption whereas private goods are rivalrous in consumption.
- \_\_\_\_\_ 32. A good is a nonexcludable if
- its consumption by one person does not reduce its consumption by others.
  - it is impossible to prevent people from obtaining the benefits of the good once it has been produced.
  - no negative externalities are associated with its production and consumption.
  - it is free in the first place; that is, it is so abundant that people can get all they want at zero price.

- \_\_\_\_\_ 33. If a positive externality exists, \_\_\_\_\_ for the socially optimal output to be reached.
- supply needs to decrease
  - demand needs to increase
  - demand needs to decrease
  - a and c
  - none of the above
- \_\_\_\_\_ 34. When marginal private cost is equal to marginal social cost,
- the activity in question generates no positive externality.
  - the activity in question generates no negative externality.
  - all positive externalities have been internalized.
  - all negative externalities have been internalized.
  - b or d
- \_\_\_\_\_ 35. Adverse selection exists when
- the parties on one side of the market, who have information not known to others, self select in a way that benefits the parties on the other side of the market.
  - the parties on one side of a market charge more for something than the parties on the other side of the market want to pay.
  - one party to a transaction changes his or her behavior in a way that is hidden from and costly to the other party.
  - the parties on one side of the market, who have information not known to others, self select in a way that adversely affects the parties on the other side of the market.
  - none of the above
- \_\_\_\_\_ 36. Suppose a person with automobile collision insurance is more likely to try to drive on an icy road in the middle of winter than that person would be if he or she didn't have automobile collision. This is an example of
- adverse selection.
  - moral hazard.
  - the free-rider effect.
  - asymmetric information before exchange.
  - none of the above

## Essays

37. (5 points) Describe the law of diminishing marginal returns. How does it relate to the shape of the marginal cost (MC) curve?
38. (15 points) We have discussed how perfectly competitive markets lead to an efficient allocation of resources. Explain the economic meaning of this, as presented in class (i.e., in what sense does the competitive market outcome maximize the well-being of society?) Describe the cases when markets fail to be competitive and the economic implication of these failures.
39. (15 points) The social structure that supports a competitive market system is designed to disperse market power among many different economic actors. Explain the ill effects that occur when market power is instead concentrated as in the case of a monopoly. Use any graphs or illustrations to assist in your answer.

**ECON 201 Final Exam -- Spring 2007**  
**Answer Section**

**MULTIPLE CHOICE**

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

**ESSAY**

37. ANS:

The law of diminishing marginal returns states that as increasingly more units of a variable input (for example, labor) are added to a given amount of fixed inputs (for example, plant size), eventually marginal physical product (MPP) of the variable input will decline. Once diminishing marginal returns sets in, the MPP curve must have a declining portion. In addition, as the productivity of the variable input falls, we would expect costs to rise. Therefore, MPP and MC have an inverse relationship and the MC curve will be upward sloping as the MPP curve is falling.

38. ANS:

.

39. ANS:

.