



University of Ottawa

Faculté des sciences sociales

Faculty of Social Sciences

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ECO1104B - INTRODUCTION TO MICROECONOMICS

Final Examination

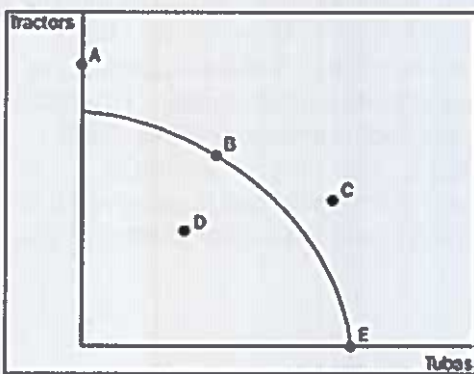
Professor David Gray

Fall 2017

You may not consult with any written documents whatsoever, and no conversation is permitted while the examination is in progress. Turn off all cellular telephones, and remove all earplugs. No programmable calculators or electronic devices are permitted with the exception of electronic dictionaries for students whose native tongue is not English. It is forbidden to look at other students' papers. There are 100 multiple choice questions, and the allotted time is three hours. It may not necessarily be the case that 3 of the responses are totally wrong, and one of them is unambiguously correct. In such situations, select the best answer. Respond to the questions on the scan-tron sheet. Please grid in your name and your student number by filling in the appropriate ovals in each column. If you use red ink, no score will be recorded for you. If you use ink of another color, the scanner can pick up your responses, but you cannot change them. You are thus advised to use a pencil. You must grid in the ovals below each digit of your student number, and below each letter of your name.

1. Why do economists use models?
 - a. to learn how the economy works
 - b. to attract the attention of government officials
 - c. to make economics accessible to the public
 - d. to make sure that all of the details of the economy are included in their analysis
2. Suppose there are two countries, Freedonia and Sylvania, which have identical amounts of resources, identical technologies, and identical populations. Both produce two types of goods, consumer goods and capital goods, and they both always operate on their production possibilities frontiers. The only difference is that this year Sylvania chooses to produce relatively more capital goods than Freedonia. What will happen as a result?
 - a. Freedonia will have a lower living standard this year and will grow slower than Sylvania.
 - b. Freedonia will have a lower living standard this year but will grow faster than Sylvania.
 - c. Sylvania will have a lower living standard this year and will grow slower than Freedonia in the future.
 - d. Sylvania will have a lower living standard this year but will grow faster than Freedonia in the future.

Figure 2-3



3. Refer to Figure 2-3, which consists of a production possibilities frontier. At which point or points can the economy produce?
 - a. points B, D, and E
 - b. points A, B, D, and E
 - c. points D and C
 - d. point D
4. What is the difference between production possibilities frontiers that are bowed out (away from the origin) and those that are linear?
 - a. Bowed out production possibilities frontiers illustrate tradeoffs, whereas linear production possibilities frontiers do not.
 - b. Bowed out production possibilities frontiers show increasing opportunity cost, whereas linear ones show constant opportunity cost.
 - c. Bowed out production possibilities frontiers are the result of perfectly adaptable and interchangeable resources, whereas linear production possibilities frontiers are not.
 - d. Bowed out production possibilities frontiers illustrate real world conditions less than linear production possibilities frontiers.
5. Which of the following is NOT an implication of our model of trade?
 - a. Trade allows for specialization.
 - b. Trade is beneficial for both nations.
 - c. Trade is based on absolute advantage.
 - d. Trade allows countries to consume more than they would in the absence of trade.

Table 3-1

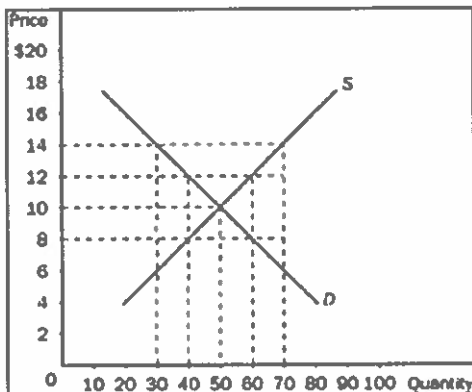
	Labour hours need to make 1 kilogram		Kilograms produced in 40 hours	
	Meat	Potatoes	Meat	Potatoes
Farmer	9	3	4	12
Rancher	3	4	8	6

6. Refer to Table 3-1. What does each producer have an absolute or comparative advantage in?
 - a. The farmer has an absolute advantage in potatoes, and the rancher has a comparative advantage in meat.
 - b. The farmer has an absolute advantage in meat, and the rancher has a comparative advantage in potatoes.
 - c. The farmer has an absolute advantage in neither good, and the rancher has a comparative advantage in potatoes.
 - d. The farmer has an absolute advantage in neither good, and the rancher has a comparative advantage in meat.

7. Assume that Spain has a comparative advantage in fish, and Germany has a comparative advantage in cars. What will happen if these two countries specialize and trade according to their comparative advantage?
 - a. All individuals in both countries will benefit.
 - b. Spain will specialize in and export cars.
 - c. Germany will produce more cars than it would in the absence of trade.
 - d. Germany will produce more fish than it would in the absence of trade.

8. What is the main input in the production of flour. All else equal, if the price of wheat increases, what would we expect?
 - a. the supply of flour to increase
 - b. the supply of flour to decrease
 - c. the demand for flour to increase
 - d. the demand for flour to decrease

Figure 4-3



9. Refer to the Figure 4-3. If the transactions price in this market is currently \$14, what would happen?
 - a. There would be a shortage of 20 units, and so producers would increase production.
 - b. There would be a surplus of 20 units, and so the price would tend to fall.
 - c. There would be a shortage of 40 units, and so producers would increase production.
 - d. There would be a surplus of 40 units, and so the price would tend to fall.

10. Who or what allocates an economy's scarce resources?
 - a. economic planners
 - b. producers who use resources
 - c. prices for resources
 - d. government regulation of scarce resources

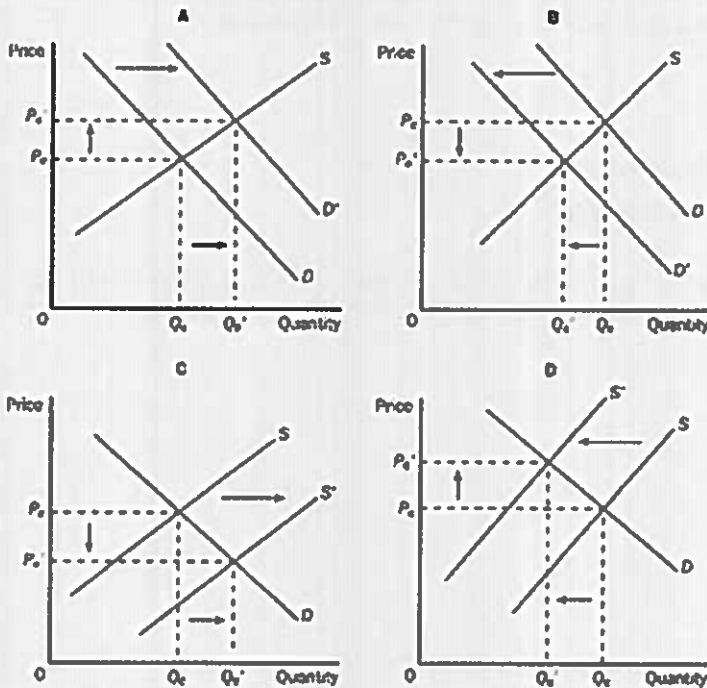
11. Alyssa rents five movies per month when the price is \$3.00 each and seven movies per month when the price is \$2.50. What has Alyssa demonstrated?
 - a. The law of increasing opportunity cost
 - b. The law of supply
 - c. The actions of an irrational consumer
 - d. The law of demand

12. What does the number of buyers that are active in the market affect?
 - a. the market demand curve
 - b. all individual demand curves
 - c. the law of demand
 - d. The price elasticity of demand

13. Which of the following is an example of an inferior good?

- a. Neckties
- b. one-ply (one layer, very thin) toilet paper
- c. cotton sheets
- d. cut flowers

Figure 4-5



14. Refer to the Figure 4-5. Which of the four graphs represents the market for cars after a new technology that raised productivity was installed on assembly lines?

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

15. Refer to the Figure 4-5. Which of the four graphs represents the market for oranges after disease impacts much of the Florida orange harvest?

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

16. When is demand said to be inelastic?

- a. if the quantity demanded changes only slightly when the price of the good changes
- b. if the demand curve shifts only slightly when the price of the good changes
- c. if buyers respond substantially to changes in the price of the good
- d. if the price of the good responds only slightly to changes in demand

17. In January, the price of widgets was \$2.00, and Wendy's Widgets produced 100 widgets. In February, the price of widgets was \$2.50, and Wendy's Widgets produced 150 widgets. In March, the price of widgets was \$3.00, and Wendy's Widgets produced 200 widgets. What is the price elasticity of supply of Wendy's Widgets? Use the mid-point method in your calculations.

- a. 0.56 when the price increased from \$2.00 to \$2.50 and 0.64 when the price increased from \$2.50 to \$3.00
- b. 1.66 when the price increased from \$2.00 to \$2.50 and 1.50 when the price increased from \$2.50 to \$3.00
- c. 1.80 when the price increased from \$2.00 to \$2.50 and 1.57 when the price increased from \$2.50 to \$3.00
- d. 2.00 when the price increased from \$2.00 to \$2.50 and 1.66 when the price increased from \$2.50 to \$3.00

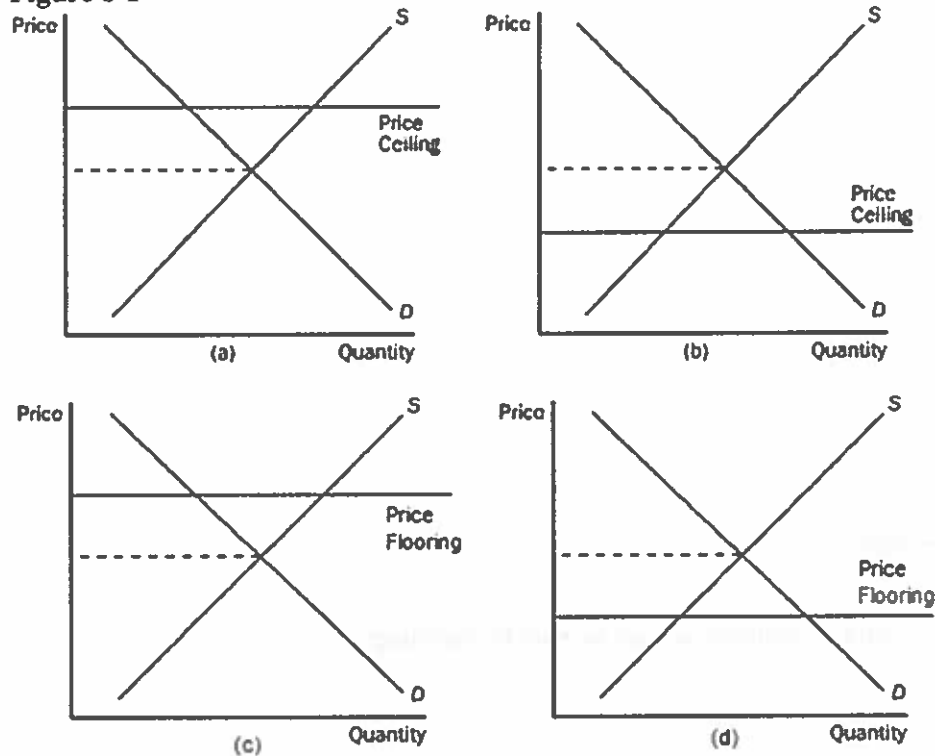
18. When will a good have a more price inelastic demand?
- when the availability of close substitutes is greater
 - when the definition of the market is narrower
 - when the period of time is longer
 - when the good is considered a necessity
19. If a demand curve is vertical, what are its slope and elasticity with respect to price?
- It is undefined, and the elasticity equals 0
 - It is zero, and the elasticity is undefined
 - It is undefined, as is the elasticity
 - It is zero, as is the elasticity

Table 5-1

Price per Baseball Ticket	Quantity Demanded
\$20	2000
\$16	4000
\$12	6000
\$ 8	8000
\$ 6	10000
\$ 4	12000
\$ 2	14000

20. Refer to Table 5-1. In the \$8 to \$12 price range, what must the demand for baseball tickets be?
- price inelastic
 - price elastic
 - price unit elastic
 - income elastic
21. Which of the following categories of goods would have the most price elastic demand?
- Beverages
 - soda pop (soft drinks or carbonated drinks)
 - Colas
 - Pepsi (a particular brand of cola)

Figure 6-1



22. Refer to Figure 6-1. In which panel in the figure shown would there be a shortage for the product?
- panel (a)
 - panel (b)
 - panel (c)
 - panel (d)

23. Which technique can most efficiently lessen water shortages caused by droughts?

- a. allowing price to equate the quantity demanded of water with the quantity supplied of water
- b. restricting water usage of consumers
- c. creating a website where "water wasters" can be reported
- d. imposing tight price controls on water

24. Over time, what happens to housing shortages caused by rent control?

- a. They increase in magnitude, because the demand and supply curves for housing are more elastic in the long run.
- b. They increase in magnitude, because the demand and supply curves for housing are more inelastic in the long run.
- c. They decrease in magnitude, because the demand and supply curves for housing are more inelastic in the long run.
- d. They decrease in magnitude, because the demand and supply curves for housing are more elastic in the long run.

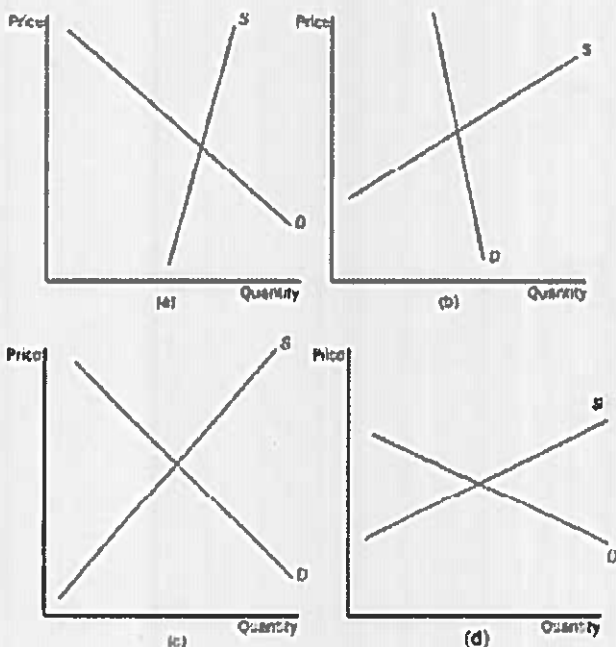
25. What results when the minimum wage is set above the equilibrium wage?

- a. The quantity demanded of labour will be greater than the quantity supplied.
- b. The quantity demanded of labour will equal to the quantity supplied.
- c. The quantity demanded of labour will be less than the quantity supplied.
- d. Anyone who wants a job at the minimum wage can find one.

26. If a tax is imposed on the buyer of a product (such that he/she has to remit the amount to the government), how will the demand curve shift?

- a. downward by the amount of the tax
- b. upward by the amount of the tax
- c. downward by less than the amount of the tax
- d. upward by more than the amount of the tax

Figure 6-11



27. Refer to Figure 6-11. In which market will the majority of a tax be paid by the buyer?

- a. market (a)
- b. market (b)
- c. market (c)
- d. market (d)

28. What does consumer surplus measure?

- a. the amount of a product a consumer can buy at a price below equilibrium price
- b. the difference between the amount a consumer has to pay and the amount the consumer would be willing to pay
- c. the number of consumers who are excluded from a market because of scarcity
- d. how much a buyer values a good

29. For which of the following situations does inefficiency exist in any market?

- a. when a good is not being consumed by buyers who value it most highly
- b. when a good is not distributed fairly among buyers
- c. when a good is not being produced by the highest-cost producer
- d. when a good is being consumed by buyers who value it most highly

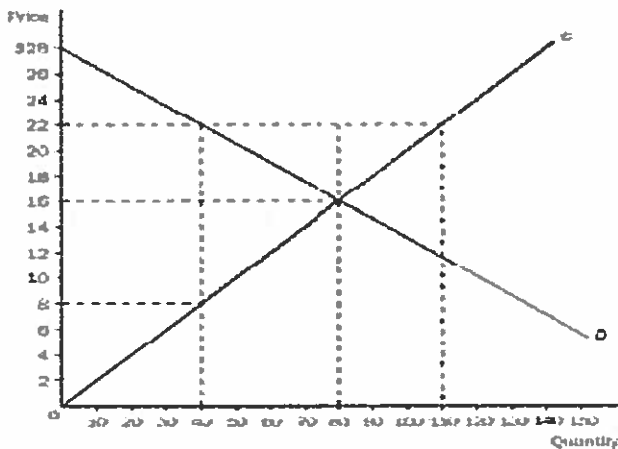
30. Which of the following does a demand curve NOT reflect?

- a. the quantity demanded that corresponds to a give price
- b. the value that each buyer in the market places on the good on the margin
- c. the highest price buyers are willing to pay for each quantity
- d. the ability of buyers to obtain the quantity they desire

31. In the context of the supply curve, when would a seller be willing to sell a product?

- a. only if the price received is less than the cost of production
- b. only if the price received is at least as great as the cost of production
- c. only if the price received is equal to the cost of production
- d. only if the price received is no greater than the cost of production

Figure 7-6



32. Refer to Figure 7-6. Assume that demand increases, and as a result, equilibrium price increases to \$ 22, and equilibrium quantity increases to 110. What would be the increase in producer surplus to producers already in the market?

- a. \$90
- b. \$210
- c. \$360
- d. \$480

33. Refer to Figure 7-6. If the price decreases from \$22 to \$16, by how much would consumer surplus increase? Refer only to the original demand curve.

- a. \$120
- b. \$360
- c. \$480
- d. \$600

34. What effect does a tax levied on the supplier of a product have?
- It shifts the supply curve upward (or to the left).
 - It shifts the supply curve downward (or to the right).
 - It shifts the demand curve upward (or to the right).
 - It shifts the demand curve downward (or to the left).
35. What must we do to fully understand how taxes affect economic well-being?
- 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 federal government to its tax revenue
36. Why does it NOT matter whether a tax is levied on the buyer or seller of the good?
- because sellers always bear the full burden of the tax
 - because buyers always bear the full burden of the tax
 - because buyers and sellers always share the burden of the tax
 - because government always bears the full burden of the tax
37. What does the deadweight loss of taxation measure?
- the loss in welfare to both buyers and sellers in a market due to the tax
 - the loss in revenue to the government when buyers choose to buy less of the product
 - the loss of equilibrium in a market as a result of government intervention
 - the lost revenue to businesses because of higher prices to consumers from the tax
38. What happens as the values of the elasticities of supply and demand increase?
- the smaller the deadweight loss from a tax
 - the less intrusive a tax will be on a market
 - the greater the deadweight loss from a tax
 - the more equitable the distribution of a tax between buyers and sellers

Scenario 8-2

Lincoln offers to do Katelyn's housework for \$80 per week. Katelyn's opportunity cost of doing housework is \$100 per week, and Lincoln's opportunity cost of doing housework is \$60 per week.

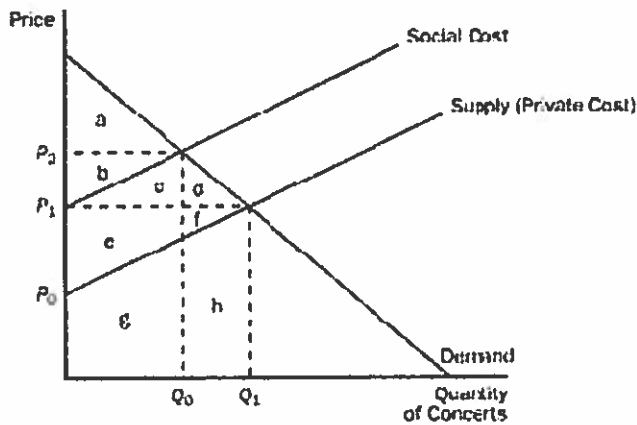
39. Refer to Scenario 8-2. What is the total gain in welfare due to the transaction described above?
- \$10 per week
 - \$20 per week
 - \$30 per week
 - \$40 per week
40. When externalities are present in a market, what is the result?
- The established free-market equilibrium maximizes the total benefit to society as a whole.
 - Market participants lose some market benefits to bystanders.
 - Both equity and efficiency are maximized.
 - The market fails to allocate resources efficiently.
41. When negative externalities are present in a market, what will result?
- Producers will be affected, but not consumers.
 - Overproduction will occur beyond the socially optimal level.
 - Demand will be too high.
 - The market will still maximize total surplus.

42. What does the height of the supply curve show?

- a. the maximum cost a seller will pay to produce a product
- b. the price a buyer can expect to pay for a certain quantity of a product
- c. the maximum amount buyers are willing to pay for a product
- d. the cost to the producer of the last unit sold

Figure 10-1

This figure reflects the market for outdoor concerts in a public park surrounded by normally quiet residential neighbourhoods.



43. Refer to Figure 10-1. What does the difference between the social cost curve and the supply curve reflect?

- a. the profit margin of each concert
- b. the cost of spillover effects from the concert (e.g., noise and traffic)
- c. the value of concerts to society as a whole
- d. the amount by which the city should subsidize the concert organizers

44. What effect are corrective taxes typically supposed to correct?

- a. positive externalities
- b. negative externalities
- c. spillover technology
- d. overproduction of goods with high social value

45. When the government chooses an externality policy that aligns private incentives with social efficiency to solve an externality, what does it do?

- a. It provides incentives for private decision makers to solve the externality problem on their own.
- b. It typically uses command-and-control techniques.
- c. It follows a rule that the use of taxes is strictly forbidden.
- d. It follows a rule that subsidies are always the best policy.

46. When one person uses a common resource, which of the following outcomes will most likely occur?

- a. He/she is likely to exploit it.
- b. Other people will be neither better nor worse off.
- c. It will be simple to charge him or her for usage of it.
- d. No one else will be able to use the common resource at all.

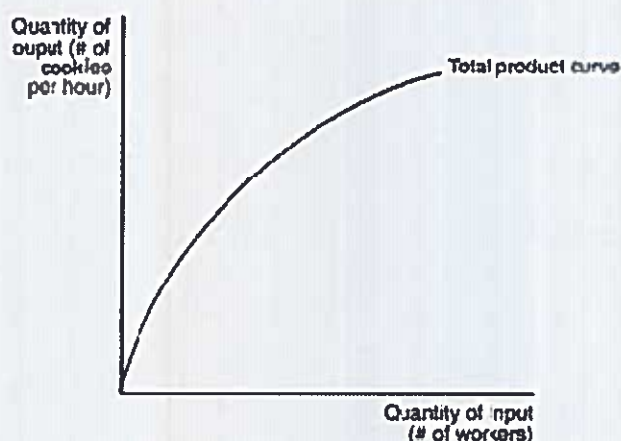
47. What does it mean when a good is rival in consumption?

- a. One person's use of the good diminishes another person's ability to use it.
- b. People can be prevented from using the good.
- c. No more than one person can use the good at a time.
- d. Everyone will be excluded from obtaining the good.

48. Why is national defence a classic example of a public good?
- Private security services are very difficult to find.
 - It is difficult to exclude people from receiving the benefits from national defence once it is provided.
 - Everyone agrees that some level of national defence is important, but only the government knows the optimal amount.
 - It is expensive to provide it in light of other important governmental services.
49. The value and cost of goods provided in an economy are easier to determine when those goods are which of the following?
- private goods
 - public goods
 - common resources
 - club goods
50. How can the Tragedy of the Commons be corrected?
- by providing more of the resource for public use
 - by assigning property rights to individuals
 - by providing government subsidies for the resource
 - by making certain everyone in the economy has access to the resource
51. If the use of a common resource is not regulated, what happens?
- It cannot be used by anyone.
 - The economy will end up over-producing the good.
 - It becomes a private good.
 - It will be over-exploited.
52. John owns a shoe-shine business. Which cost does his accountant most likely include on his financial statements?
- wages John could earn washing windows
 - dividends John's money was earning in the stock market before John sold his shares and bought a shoe-shine booth
 - the cost of shoe polish
 - wages John could have earned for unclaimed overtime labour hours
53. What is economic profit equal to?
- explicit revenue minus the explicit cost of producing goods and services
 - total revenue minus the opportunity cost of producing goods and services
 - accounting revenue minus the accounting cost of producing goods and services
 - total revenue minus the explicit cost of producing goods and services

Figure 13-1

The figure depicts a production function for a firm that produces cookies.



54. Refer to Figure 13-1. With regard to cookie production, what does the figure imply?
- diminishing marginal product of workers
 - diminishing marginal cost of cookie production
 - increasing marginal cost of cookie production
 - increasing marginal product of workers
55. For a certain firm, the number of workers hired is the only variable input. When this firm's production function is illustrated on a graph, what is measured on the axes?
- The number of workers is measured on the horizontal axis, and the quantity of output is measured on the vertical axis.
 - The number of workers is measured on the horizontal axis, and variable cost is measured on the vertical axis.
 - The number of workers is measured on the horizontal axis, and profit is measured on the vertical axis.
 - The number of workers is measured on the horizontal axis, and total cost is measured on the vertical axis.
56. Which costs do NOT vary with the amount of output a firm produces?
- average fixed costs
 - fixed costs and average fixed costs
 - marginal costs and average fixed costs
 - Total fixed costs

Scenario 13-4

A 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. How will average total cost behave?
- It will always rise.
 - It will always fall.
 - It will be U-shaped (or saucer-shaped), at first falling and then rising.
 - It will remain constant.

Table 13-1

Measures of Cost for ABC Inc. Widget Factory			
Quantity of Widgets	Variable Costs	Total Costs	Fixed Costs
0			\$15
1	\$1		
2	\$3	\$18	
3	\$6	\$21	
4	\$10		
5		\$30	
6	\$21		\$15

58. Refer to Table 13-1. What is the average variable cost of producing four widgets?
- \$2.00
 - \$2.50
 - \$3.33
 - \$5.00
59. Refer to Table 13-1. What is the average fixed cost of producing five widgets?
- \$1
 - \$2
 - \$3
 - \$4

60. In the long run, what happens to inputs of the production process?

- 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 will increase.
- d. Inputs that were variable in the short run will decrease.

61. For a firm, what does “constant returns to scale” refer to?

- a. Short-run average total cost changes at a constant rate as the quantity of output changes.
- b. Short-run average total cost does not change as the quantity of output changes.
- c. Long-run average total cost does not change as the quantity of output changes.
- d. Long-run average total cost changes at a constant rate as the quantity of output changes.

62. In a competitive market, why can no single producer influence the market price?

- a. Many other sellers are offering a product that is essentially identical.
- b. Consumers have more influence over the market price than producers do.
- c. Government intervention prevents firms from influencing price.
- d. Producers agree not to change the price.

Table 14-1

Quantity	Price per Item
1	\$15
2	\$15
3	\$15
4	\$15
5	\$15
6	\$15
7	\$15
8	\$15
9	\$15

63. Refer to Table 14-1. The price and quantity relationship in the table is most likely faced by a firm in which type of market?

- a. a monopoly
- b. a concentrated market
- c. a competitive market
- d. a strategic market

64. If a firm in a competitive market reduces its output by 30 percent, what is the price of its output likely to do?

- a. decrease by more than 30 percent
- b. decrease by less than 30 percent
- c. remain unchanged
- d. increase

Table 14-2

Quantity	Total Revenue	Total Cost
0	\$0	\$11
1	10	16
2	20	22
3	30	29
4	40	37
5	50	46
6	60	56
7	70	67
8	80	79
9	90	92

65. Refer to Table 14-2. At which quantity of output is marginal revenue equal to marginal cost?

- a. 2
- b. 4
- c. 6
- d. 8

66. When calculating marginal cost, what must the firm know at each level of output?

- a. sunk cost
- b. variable cost
- c. fixed cost
- d. average total cost

67. What costs do firms that shut down in the short run still have to pay?

- a. variable costs
- b. fixed costs
- c. total cost
- d. marginal cost

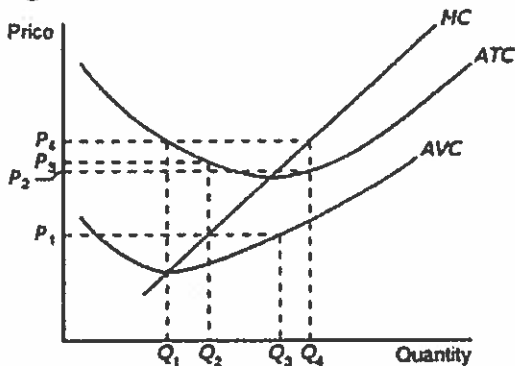
68. In the long run, when will a profit-maximizing firm choose to exit a market?

- a. when average fixed cost is falling
- b. when variable costs exceed sunk costs
- c. when marginal cost exceeds marginal revenue at the current level of production
- d. when total revenue is less than total cost

69. When profit-maximizing firms in a competitive market are earning profits, what must be happening in the market?

- a. Market demand must exceed market supply at the market equilibrium price.
- b. Market supply must exceed market demand at the market equilibrium price.
- c. New firms will enter the market.
- d. The most inefficient firms will be encouraged to leave the market.

Figure 14-6



70. Refer to Figure 14-6. When market price is P_4 , which area represents a profit-maximizing firm's total cost?

- a. $P_2 \times Q_4$
- b. $P_4 \times Q_1$
- c. $P_4 \times Q_4$
- d. $P_2 \times Q_1$

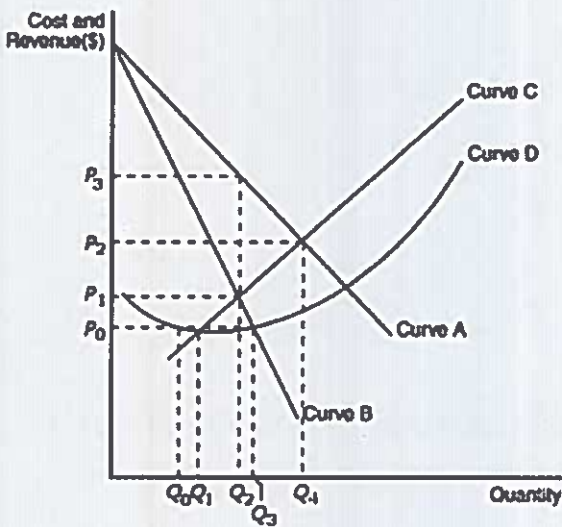
71. A competitive market has a horizontal long-run supply curve and is in long-run equilibrium. If demand decreases, what can we be certain will happen in the short run?

- a. At least some firms will shut down.
- b. Price will fall below marginal cost.
- c. Price will fall below average total cost.
- d. At least some firms will exit the industry.

72. What is the main difference between a competitive firm and a monopoly?
- A competitive firm owns a key resource, but a monopoly firm does not.
 - A competitive firm is a price taker, and a monopoly is a price maker.
 - A competitive firm produces output at a lower cost than a monopoly firm.
 - A competitive firm faces a downward sloping demand curve, but a monopoly firm faces a horizontal demand curve.
73. Angelo is a wholesale meatball distributor. He sells his meatballs to all of the finest Italian restaurants in town. Nobody can make meatballs like Angelo. As a result, his is the only business in town that sells meatballs to restaurants. Assuming that Angelo is maximizing his profit, how will meatball prices compare with marginal cost?
- Meatball prices will be less than marginal cost.
 - Meatball prices will equal marginal cost.
 - Meatball prices will exceed marginal cost.
 - Meatball prices will be taken by Angelo as a given, and thus have no relationship with his marginal costs.
74. How do competitive firms and monopolists differ?
- A competitive firm cannot choose its level of output; a monopolist chooses its level of output.
 - A competitive firm's short-run profit is always zero; a monopolist can have a positive short-run profit.
 - A competitive firm's marginal-revenue curve is horizontal; a monopolist's marginal-revenue curve is downward sloping.
 - A competitive firm sets price equal to marginal cost; a monopolist sets price equal to marginal revenue.
75. A monopoly firm can sell 200 units of output for \$36.00 per unit. Alternatively, it can sell 201 units of output for \$35.50 per unit. What is the marginal revenue of the 201st unit of output?
- \$35.50
 - \$64.50
 - \$64.50
 - \$35.50

Figure 15-2

The figure below reflects the cost and revenue structure for a monopoly firm.



76. Refer to Figure 15-2 above. Which curve depicts the marginal-revenue curve for a monopoly firm?
- A
 - B
 - C
 - D

77. Refer to Figure 15-2. If the monopoly firm is currently producing Q_3 units of output, what will a decrease in output necessarily cause profit to do?

- a. Decrease
- b. remain unchanged
- c. increase as long as the new level of output is at least Q_1
- d. increase as long as the new level of output is at least Q_2

78. Refer to Figure 15-2. What is a profit-maximizing monopoly's total revenue?

- a. $P_2 \times Q_4$
- b. $P_3 \times Q_2$
- c. $(P_3 - P_1) \times Q_2$
- d. $(P_3 - P_0) \times Q_4$

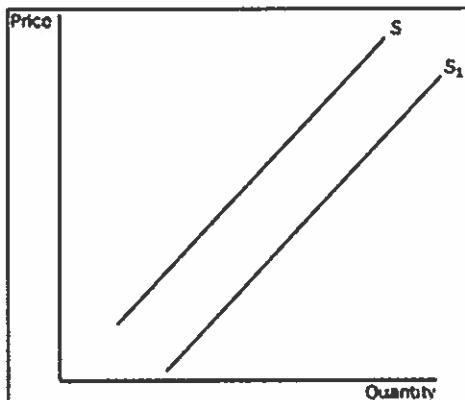
79. Which statement best characterizes a monopoly market?

- a. It generally maximizes total economic well-being (or total surplus).
- b. It generally minimizes consumer surplus.
- c. It generally fails to maximize total economic well-being.
- d. It generally fails to maximize producer surplus.

80. What is the main problem caused by monopoly as far as social welfare is concerned?

- a. an inefficiently low quantity of output
- b. an inefficiently high value of marginal cost
- c. excessive monopoly profits
- d. excessive producer surplus

Figure 4-1



81. Refer to the Figure 4-1. What is the movement from S to S1 called?

- a. a decrease in supply
- b. a decrease in quantity supplied
- c. an increase in supply
- d. an increase in quantity supplied

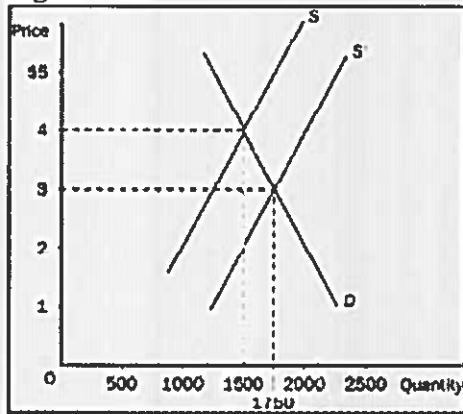
82. What is the law of demand?

- a. When the price of a good falls, buyers respond by purchasing more.
- b. When income levels increase, buyers respond by purchasing more.
- c. When buyers' tastes for the good increase, they purchase more of the good.
- d. When the price of a good or service rises, buyers respond by purchasing more.

83. When demand is inelastic, what will a decrease in price cause?

- a. an increase in total revenue
- b. a decrease in total revenue
- c. no change in total revenue
- d. an uncertain change in total revenue

Figure 5-12



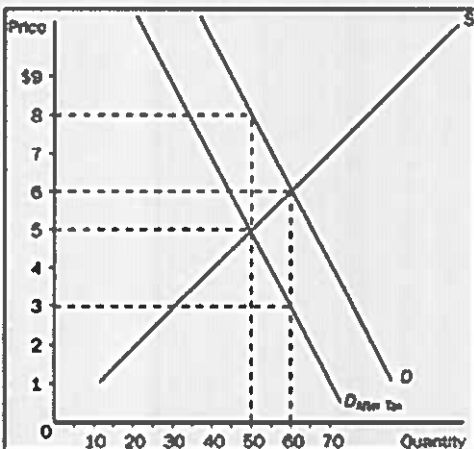
84. Refer to Figure 5-12. When a new, more productive strawberry plant was developed, causing supply to increase, what happened to strawberry farmers' total revenue, and why?

- a. It fell from \$6000 to \$5250, since supply is elastic.
- b. It fell from \$6000 to \$5250, since demand is inelastic.
- c. It fell from \$6000 to \$5250, since supply is inelastic.
- d. It fell from \$6000 to \$5250, since demand is elastic.

85. Suppose that the demand for digital picture frames is price elastic, and the supply of digital picture frames is price inelastic. By what amount will a tax of \$1.00 per frame levied on buyers of picture frames increase the equilibrium price paid by buyers of picture frames?

- a. by less than \$0.50
- b. by more than \$0.50 but less than \$1.00
- c. by \$1.00
- d. by more than \$1.00

Figure 6-8



86. Refer to Figure 6-8. What is the amount of the tax imposed in this market?

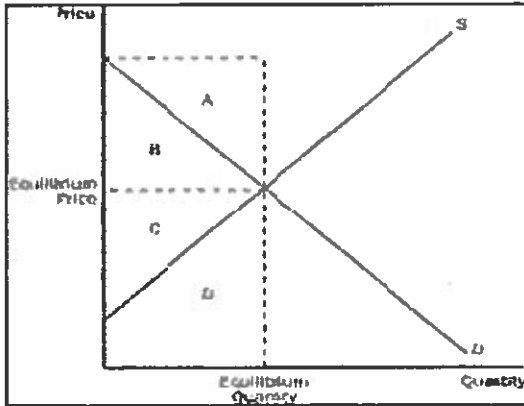
- a. \$1.00 per unit
- b. \$1.50 per unit
- c. \$2.50 per unit
- d. \$3.00 per unit

87. Consider an output level that is greater than the free-market equilibrium level. Which of the following statements is true?

- a. Total surplus is as high as possible.
- b. On the margin, consumers value the unit more than producers do.
- c. On the margin, producers value the unit more than consumers do.
- d. Consumer surplus is greater than producer surplus.

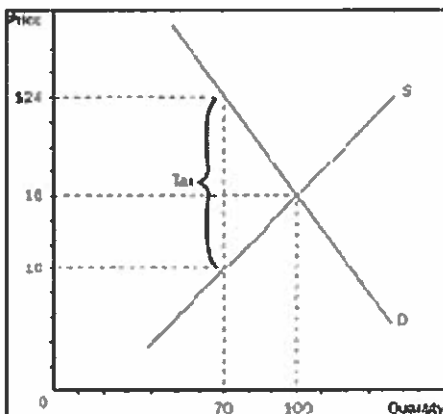
88. Suppose that the equilibrium price in the market for widgets is \$8. If a law increased the minimum legal price for widgets to \$9, what would be the outcome?
- The resulting increase in consumer surplus would be larger than any possible loss of producer surplus.
 - The resulting increase in consumer surplus would be smaller than any possible loss of producer surplus.
 - Any possible increase in producer surplus would be larger than the loss of consumer surplus.
 - Any possible increase in producer surplus would be smaller than the loss of consumer surplus.

Figure 8-1



89. Refer to Figure 8-1. Which area represents total economic surplus?
- A + B
 - B + C
 - C + D
 - A + D

Figure 8-3



90. Refer to Figure 8-3. What is the amount of deadweight loss as a result of the tax?
- \$210
 - \$420
 - \$560
 - \$980
91. Which of the following can cause market failure?
- Diminishing returns to a variable input
 - Externalities
 - excess supply or demand
 - Scarcity
92. What results once tradable pollution permits have been allocated to firms?
- The government controls the price of permits.
 - Firms that can reduce pollution only at high cost will be willing to pay the most for the pollution permits.
 - The value of pollution-saving technology is always lower than the market value of a pollution permit.
 - The total amount of pollution governed by the permit will always decrease.

93. Which of the following would be considered a common resource good?

- a. Internet service
- b. bottled natural mineral water
- c. uncongested toll roads
- d. fish in the ocean

94. Why are most lighthouses operated by the government?

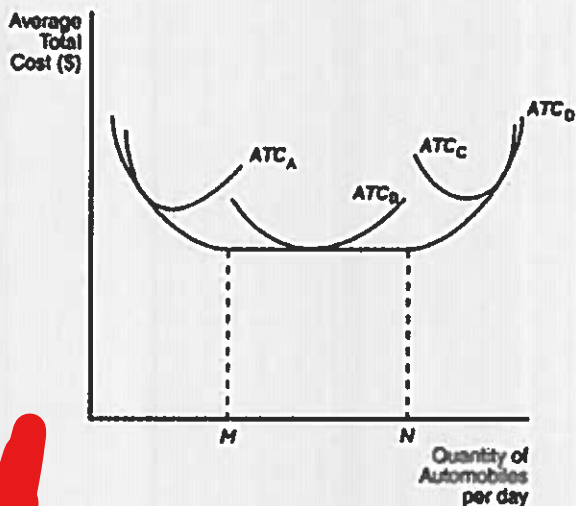
- a. because of the free-rider problem
- b. because lighthouses are no longer valued by society
- c. because most lighthouses are only tourist attractions in provincial and national parks
- d. because shipping companies would not be able to afford lighthouse upkeep

95. What is added to profit to obtain total revenue?

- a. net profit
- b. capital profit
- c. operational cost
- d. total cost

Figure 13-5

This figure depicts average total cost functions for a firm that produces automobiles.



96. Refer to Figure 13-5. At what output levels does this firm experience diseconomies of scale?

- a. output levels below M
- b. output levels between M and N
- c. output levels at N
- d. output levels above N

97. In a competitive market, what impact will the actions of any single buyer or seller have?

- a. They will have a negligible impact on the market price.
- b. They will have little effect on overall production but will ultimately change final product price.
- c. They will cause a noticeable change in overall production and a change in final product price.
- d. They will affect the profitability of other firms and have an impact on the market price.

98. When a firm in a competitive market produces 15 units of output, it has a marginal revenue of \$8.00. What would be the firm's total revenue when it produces 8 units of output?

- a. \$4.80
- b. \$6.00
- c. \$48.00
- d. \$64.00

99. When a firm operates under conditions of monopoly, what do we know about its pricing?

- a. Its pricing is not constrained.
- b. Its pricing is constrained by its marginal cost.
- c. Its pricing is constrained by its demand curve.
- d. Its pricing is constrained only by its social agenda.

100. Which statement best explains the welfare cost of monopoly?

- a. The benefits that accrue to a monopoly firm's owners are equal to the costs that are incurred by consumers of that firm's product.
- b. The deadweight loss that arises in monopoly stems from the fact that the profit-maximizing monopoly firm produces a quantity of output that exceeds the socially efficient quantity.
- c. The deadweight loss caused by monopoly is similar to the deadweight loss caused by a tax on a product.
- d. The main social problem caused by monopoly is monopoly profit.

