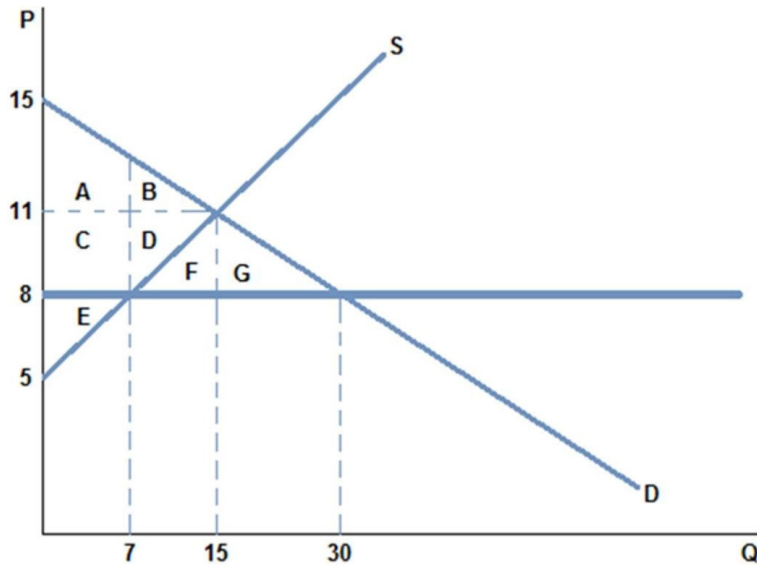


ECO1104, Practice 2nd Midterm

Multiple Choice

Identify the choice that best completes the statement or answers the question.

1) What could happen to render the price ceiling set in the graph shown ineffective?



- A) Demand could decrease, and shift to the left.
 B) Supply could decrease, and shift to the left.
 C) Demand could increase, and shift to the right.
 D) None of these would cause the price ceiling to be ineffective.
- 2) Elijah has just eaten his second popsicle. Using the concept of marginal utility, we can say:
- A) the utility that he will gain from his third will reduce his total utility.
 B) the utility that he will gain from his third might reduce his total utility and will likely be less than that of his second.
 C) the utility that he will gain from his third might reduce his total utility.
 D) the utility that he will gain from his third will likely be less than that of his second.
- 3) An example of an ongoing expense for a toy company would be buying:
- A) a delivery truck, and would be included in total cost.
 B) advertising for their products, and would be included in total cost.
 C) a new factory, and would be excluded from total cost.
 D) None of these is true.
- 4) One implication of goods being standardized in a market is:
- A) the government regulations must promote competition and lower prices to be efficient.
 B) there are no information asymmetries.
 C) the similarity in products may be real or perceived.
 D) None of these is an implication of standardization.
- 5) A price taker is a buyer or seller who:
- A) can influence the market price.
 B) has no control over setting the market price.
 C) has the goal of maximizing market share, not profits.
 D) has complete control over setting the market price.
- 6) An essential characteristic of a perfectly competitive market is:
- A) sellers are price makers.
 B) goods are standardized.
 C) buyers and sellers share market power.
 D) goods are unique.

- 7) The market supply in a perfectly competitive market:
- A) is the sum of the quantities that each individual producer is willing to supply.
 - B) is the total quantity of a good that the biggest market shareholder supplies at a given price.
 - C) is fixed.
 - D) All of these are true.
- 8) If a firm in a perfectly competitive market is producing at a level of output where marginal costs are less than marginal revenue:
- A) its profits will increase if it produces less.
 - B) its profits must be positive.
 - C) its profits are maximized.
 - D) None of these is true.
- 9) Collusion:
- A) is more likely in perfectly competitive markets.
 - B) is less likely when the threat of market entry is missing.
 - C) is more likely when the threat of market entry is missing.
 - D) None of these is true.
- 10) Which of the following holds true at the chosen level of output in the long run for firms in a perfectly competitive market?
- A) $P = \text{minimum ATC}$
 - B) $P = MC$
 - C) $MR = MC$
 - D) All of these are true.
- 11) Commodities:
- A) are identical regardless of who produced them.
 - B) are a special type of standardized good.
 - C) have no product differentiation.
 - D) All of these represents commodities.
- 12) In the long run, firms will enter a perfectly competitive market if the existing firms are making:
- A) negative profits.
 - B) zero profits.
 - C) positive profits.
 - D) Any of these could be true.
- 13) A good that is standardized is:
- A) interchangeable with others in the market.
 - B) identical to others in the market.
 - C) indistinguishable to others in the market.
 - D) All of these represent standardized goods.
- 14) For a firm in a perfectly competitive market, a decrease in the market price:
- A) lowers the profit-maximizing quantity.
 - B) is unrelated to the profit-maximizing quantity.
 - C) signifies the firm should leave the market.
 - D) increases the profit-maximizing quantity.

- 15) In reality, the long-run supply curve for a perfectly competitive market is upward sloping because:
- A) of changing costs of production that firms may face.
 - B) experienced firms will have different information and costs than new firms.
 - C) not all firms have identical cost structures.
 - D) All of these are true.

Table 13-01: This table shows price and quantity produced for a single firm in a perfectly competitive market.

Price	Quantity
10	23
10	24
10	25
10	26

- 16) Given the information in the table 13-01, what is the average revenue when 24 units are produced?
- A) \$2.40
 - B) \$24
 - C) \$10
 - D) \$240
- 17) If a firm stops production, then its:
- A) total costs may increase or decrease.
 - B) fixed costs rise.
 - C) variable costs drop to zero.
 - D) All of these are true.
- 18) A cigar factory employs 20 workers and produces 1,000 cigars a day. The company reduces the workforce to 19 workers and produces 912 cigars a day. The 20th worker:
- A) caused average product to fall.
 - B) must have had a lower marginal product than the 19th worker.
 - C) had a marginal product of 88 cigars.
 - D) All of these are true.
- 19) Suppose Larry's Lariats produced 25,000 lassos and sold each for \$10. What was the total revenue for the company?
- A) \$2,500
 - B) \$25,000
 - C) \$2,500,000
 - D) \$250,000
- 20) In general, the cost of an input:
- A) decreases when you've reached the point of diminishing marginal product in your firm.
 - B) increases when you've reached the point of diminishing marginal product in your firm.
 - C) is minimized when you've reached the point of diminishing marginal product in your firm.
 - D) stays the same when you've reached the point of diminishing marginal product in your firm.
- 21) Imagine Tom's annual salary as an assistant store manager is \$30,000, he owns a building that rents for \$10,000 yearly, and his financial assets generate \$1,000 per year in interest. One day, after deciding to be his own boss, he quits his job, evicts his tenants, and uses his financial assets to establish a bicycle repair shop. To run the business, he outlays \$15,000 in cash to cover all the costs involved with running the business, and earns revenues of \$50,000. What are Tom's accounting profits?

- A) \$50,000
- B) \$24,000
- C) -\$6,000
- D) \$35,000

22) A sandwich shop has six months left on its lease to its storefront and equipment and currently employs three workers who work on an on-call basis, with no contract. Ingredients are bought daily. How long is the long run for the sandwich shop?

- A) Six months, after which all inputs listed become variable
- B) The long and short run are the same in this case
- C) A year, the typical term for long run, as there is nothing unusual about this business
- D) None of these is true.

23) Marginal cost is:

- A) the costs that sit on the margin, that do not change regardless of the level of output.
- B) the total cost a firm will incur by producing a given level of output.
- C) the additional output a firm will get by employing one additional unit of input.
- D) the additional cost a firm will incur by producing one additional unit of output.

24) Suppose Larry's Lariats produces lassos, and uses nine feet of rope to make each lasso. The rope is put into a machine that automatically cuts it to the right length, then seals the ends to prevent fraying. The rope is then hand tied, dipped, and wound before being placed in a packaging machine to prepare it for retail sale. The total costs for this company would include:

- A) employee's wages.
- B) the rope-cutting machine.
- C) the cost of rope.
- D) All of these expenses would be included in total cost.

25) The increase in output that is generated by an additional unit of input is called the:

- A) marginal product.
- B) resource product.
- C) input-output relationship.
- D) production function.

26) Total revenue is:

- A) price multiplied by quantity of each item sold.
- B) price multiplied by quantity subtracted from total cost.
- C) cost multiplied by quantity of each item produced.
- D) None of these is true.

27) The total cost curve:

- A) is always above the variable cost curve.
- B) is parallel to the variable cost curve.
- C) is the sum of the variable cost curve and fixed cost curve.
- D) All of these describe the total cost.

28) Betty is out on a first date with Barney. She decides to order the garden salad with dressing on the side in an effort to make a good first impression, even though she loves leg of lamb. Economic theory:

- A) cannot be used to explain matters of the heart.
- B) would suggest that making a good impression with her choice will bring her more utility than ordering lamb and making a bad impression.
- C) would suggest that she values what Barney thinks of her and will derive negative utility if she does not impress him.
- D) cannot explain why someone would choose a meal that brings her less utility than another.

29) Nick has \$300 a month to spend on detailing his sports car or buying bottles of good wine. It costs \$100 to have his car detailed and \$50 for a bottle of wine. He currently buys four bottles of wine and has his car detailed once a month. If the price of detailing his car decreased to \$75, Nick's budget constraint:

- A) would shift straight outward, because he is relatively wealthier.
- B) would shift straight inward because he is relatively wealthier.
- C) would rotate because relative prices have changed.
- D) One cannot determine what would happen without knowing Nick's marginal utility of each good.

30) Carrie is deciding between wearing her blue sweater or her denim jacket. If she chooses her sweater, we can conclude:

- A) Carrie will never choose the jacket as long as she owns the sweater.
- B) Carrie is irrational if she chooses the jacket over the sweater.
- C) Carrie will gain more utility from wearing the sweater than the jacket right now.
- D) We cannot conclude any of these things.

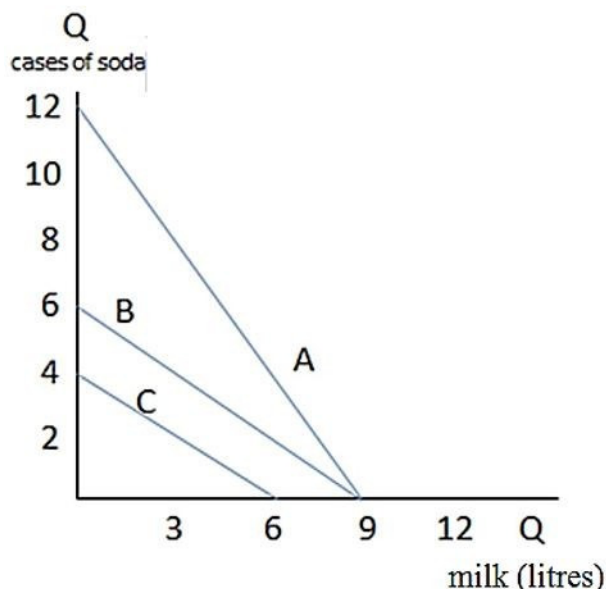
31) When a person's income increases:

- A) more bundles of goods and services become affordable.
- B) the bundles of goods and services that become affordable don't change.
- C) the bundles of goods and services that become affordable must include more expensive goods and services.
- D) less bundles of goods and services become affordable.

32) Sam has \$200 a month to spend on two normal goods—tanning sessions or rounds of golf. Tanning sessions are \$20 each, and a round of golf is \$40. Sam currently consumes six tanning sessions and two rounds of golf. If the price of a round of golf drops to \$20, the income effect:

- A) predicts Sam will consume less golf and more tanning sessions.
- B) predicts Sam will double his consumption of golf.
- C) predicts Sam will increase his consumption of both golf and tanning sessions.
- D) predicts Sam will consume more golf and less tanning sessions.

Graph 07-04: This graph below three different budget constraints: A, B, and C.



33) If Joe has budget constraint C in graph 07-04, what is the relative price of three litres of milk?

- A) 4 cases of soda
- B) \$9
- C) 2 cases of soda
- D) \$12

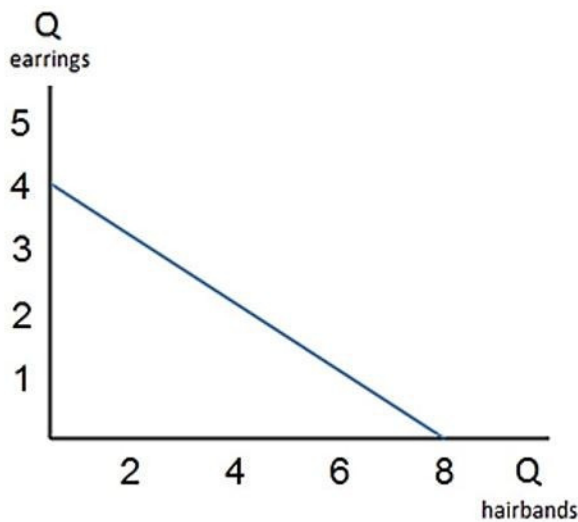
34) If we compare budget constraint A to budget constraint B in graph 07-04, what can be said of the relative prices reflected in the two?

- A) Because A is steeper, soda is relatively less expensive in A than in budget constraint B.
- B) Because A is flatter, soda is relatively more expensive in A than in budget constraint B.
- C) Because B is flatter, soda is relatively more expensive in A than in budget constraint B.
- D) Because B is steeper, soda is relatively less expensive in A than in budget constraint B.

35) Katie just finished a bottle of Coke. Using the concept of marginal utility, we can say:

- A) the utility that she will gain if she drinks another bottle will increase her total utility.
- B) the utility that she will gain if she drinks another bottle will reduce her total utility.
- C) the utility that she will gain if she drinks another bottle will be the same as that of her first.
- D) None of these is necessarily true.

Graph 07-02: The following graph depicts a budget constraint for earrings and hairbands.



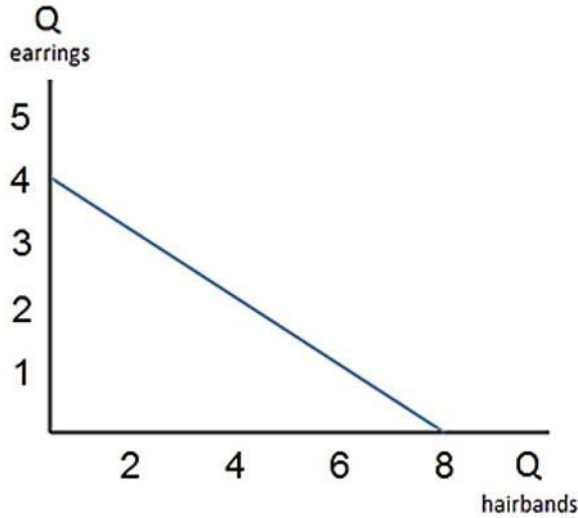
36) Assume graph 07-02 shows Bobbi's budget constraint. If hairbands cost \$5, then Bobbi's income to spend on these two items must be:

- A) \$40.
- B) \$6.
- C) \$8.
- D) Cannot be determined without more information.

37) In general, changes in the price of a good:

- A) causes an income effect only.
- B) causes a substitution effect only.
- C) causes both an income and substitution effect.
- D) usually has no effect.

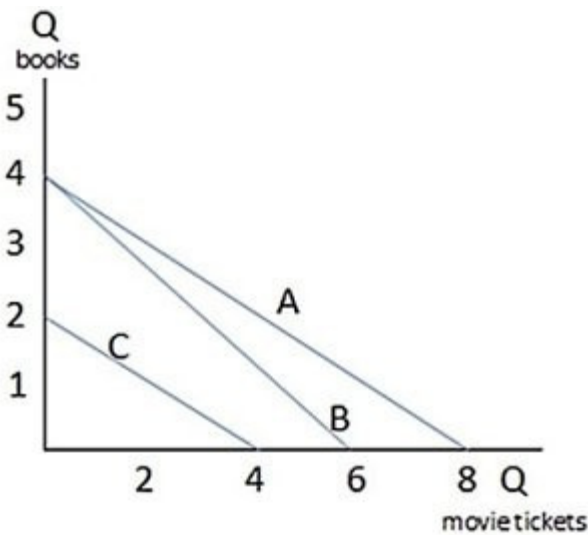
Graph 07-02: The following graph depicts a budget constraint for earrings and hairbands.



38) If graph 07-02 represents Steph's budget constraint, and the price of hairbands were to increase, the slope of Steph's budget constraint would become:

- A) flatter, reflecting the fact that hairbands are now relatively more expensive.
- B) steeper, reflecting the fact that hairbands are now relatively less expensive.
- C) steeper, reflecting the fact that earrings are now relatively less expensive.
- D) flatter, reflecting the fact that earrings are now relatively more expensive.

Graph 07-03: Consider budget constraints A and B in the graph below.



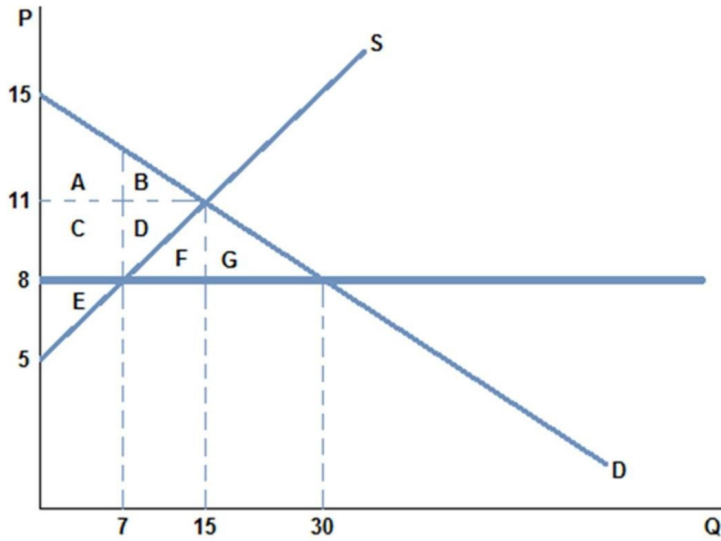
39) In graph 07-03, the slope of line A compared to the slope of line B:

- A) is flatter, showing that books are relatively less expensive in line A.
- B) shows that the opportunity cost of books is smaller in line A.
- C) is steeper, showing that movie tickets are relatively more expensive in line A.
- D) shows that the opportunity cost of books is greater in line A.

40) Is it possible for sellers to benefit more than consumers from a subsidy to buyers?

- A) Yes, if the supply curve is relatively less inelastic than the demand curve.
- B) Producers can never benefit more than buyers from a subsidy to buyers.
- C) Yes, if the supply curve is relatively more inelastic than the demand curve.
- D) Yes, if the sellers need it more.

41) If a price ceiling of \$8 were placed in the market in the graph below:



- A) a shortage of 8 would occur.
- B) a shortage of 23 would occur.
- C) a shortage of 7 would occur.
- D) a shortage of 15 would occur.

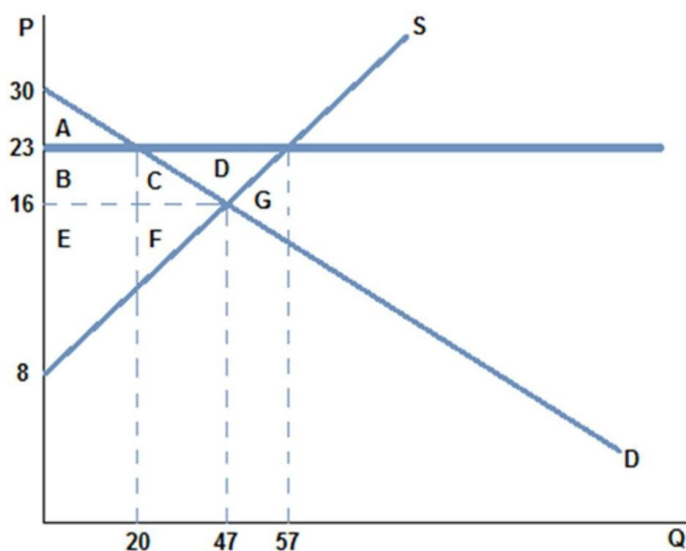
42) Tax incidence is:

- A) the relative tax burden borne by buyers and sellers.
- B) the difference between the tax revenue generated and the value of deadweight loss caused by the imposition of the tax.
- C) the difference between what the buyers pay and what the sellers receive in a market where taxes are present.
- D) the generated revenue that comes from taxes in markets.

43) Governments tend to set price ceilings:

- A) to ensure everyone can afford certain goods.
- B) to prevent consumers from choosing the wrong goods.
- C) to ensure producers make enough for everyone.
- D) to ensure producers make enough profit to stay in the industry.

44) After a price floor of \$23 is placed on the market in the graph below, which area represents producer surplus?

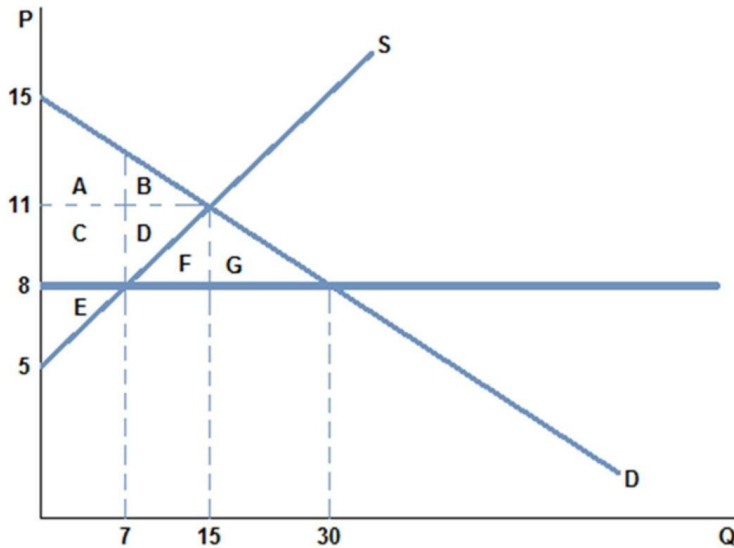


- A) B + C + D + F
- B) B + E
- C) B + C + D
- D) B + C + D + E

45) A subsidy:

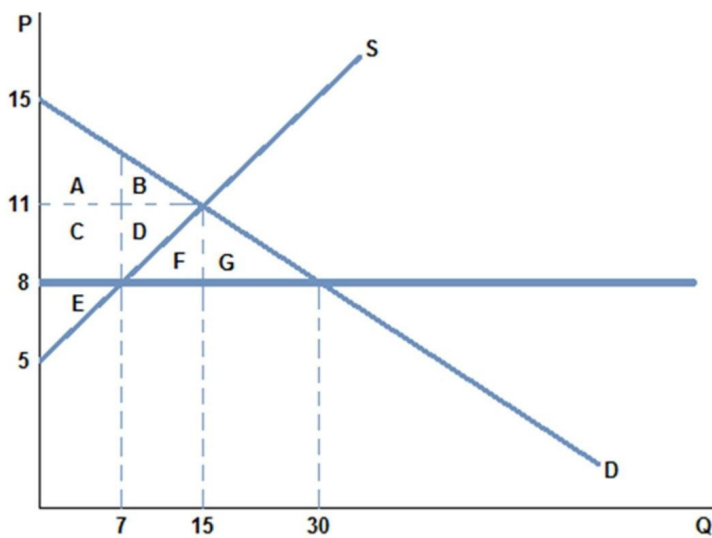
- A) is used by governments as an supplement to price controls to benefit certain groups without generating a shortage or an excess supply.
- B) Is a requirement that the government pay an extra amount to producers and consumers of a good.
- C) is used by governments to discourage the production and consumption of a particular good or service.
- D) is a requirement that the government pay an extra amount to producers or consumers of a good.

46) If a price ceiling of \$8 were placed in the market in the graph below:



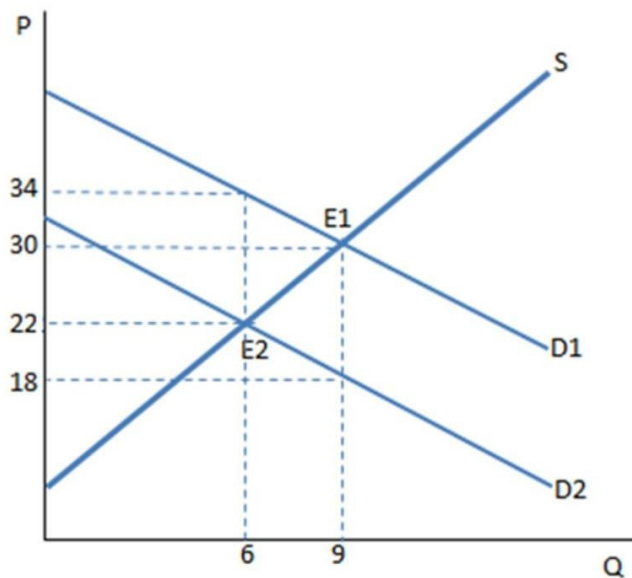
- A) a surplus of 7 would occur.
- B) a surplus of 23 would occur.
- C) a shortage of 7 would occur.
- D) a shortage of 23 would occur.

47) Which of the following changes to the market in the graph below could cause the price ceiling to become ineffective?



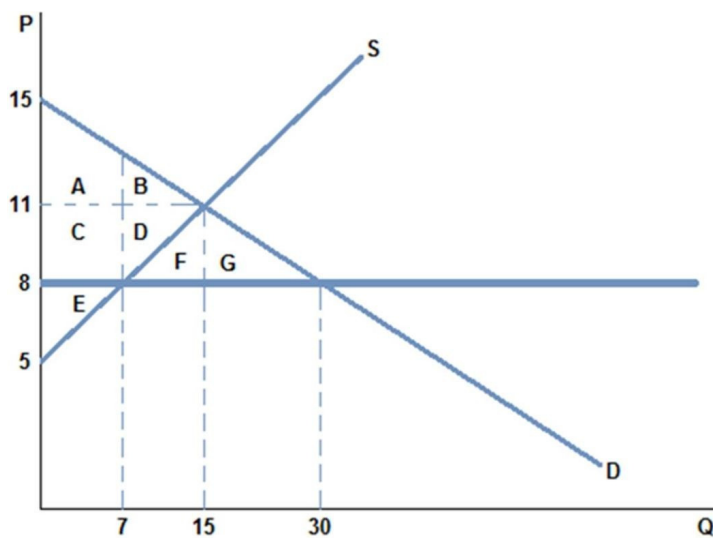
- A) Demand could increase, and shift to the right.
- B) Supply could decrease, and shift to the left.
- C) Supply could increase, and shift to the right.
- D) Supply could increase, and shift to the left.

48) The graph below demonstrates a tax on buyers. What is the amount of tax revenue being generated from the tax?



- A) \$72
- B) \$96
- C) \$36
- D) \$48

49) A price ceiling of \$8 placed on the market in the graph below:



- A) is ineffective, and does not prevent the market from reaching equilibrium.
- B) is ineffective, and does not affect the market.
- C) is effective, and causes a shortage.
- D) is effective, and causes a surplus.

50) If the producers bear a larger portion of tax incidence than the buyers, which of the following must be true?

- A) They are not as business savvy as the buyers.
- B) Their supply curve must be more elastic than the buyers demand curve.
- C) Their supply curve must be more inelastic than the buyers demand curve.
- D) They face a very inelastic demand.

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