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

1) Barbara left a $25,000 job as an architect to run a catering business. She invested $100,000 of her own money to purchase a building for the business. The interest rate that Barbara typically earns on her investments is 10%, while real estate is not appreciating in Barbara's neighborhood. Barbara spends $150,000 per year on employee salaries, supplies, etc. What is the economic cost of Barbara's catering business?

A) $125,000  B) $165,000  C) $175,000  D) $185,000

2) Which of the following is an example of something that economists would consider a cost but accountants would not?

A) the wages paid to employees of a firm
B) the wages that the owner of a firm could have earned in some alternative job
C) rent paid to a business' landlord
D) the cost of leather used in the production of footballs

3) In the short run:
   A) firms have the ability to enter or exit the industry.
   B) firms are able to alter some, but not all, of their factors of production.
   C) firms are unable to adjust their output choices.
   D) none of the above are correct.

4) Diminishing marginal returns implies that:

A) marginal costs are decreasing.  B) marginal costs are increasing.
C) marginal costs are constant.  D) marginal costs may be increasing or decreasing.

5) Diminishing marginal returns implies that firms:

A) require fewer and fewer workers to produce each additional unit of output.
B) require more and more workers to produce each additional unit of output.
C) get decreasing amounts of revenue for each unit of output they produce.
D) get increasing amounts of revenue for each unit of output they produce.

<table>
<thead>
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Table 8.1

6) Refer to Table 8.1, which gives a firm's production function. Assume that all non-labor inputs are fixed. Diminishing marginal returns set in with the addition of the:

7) Refer to Table 8.1, which gives a firm’s production function. Assume that all non-labor inputs are fixed. The marginal product of the fifth worker is:
   A) 12 units.  
   B) 60 units.  
   C) 5 units.  
   D) 0 units.

8) Refer to Table 8.1, which gives a firm’s production function. Assume that all non-labor inputs are fixed. Marginal product is maximized when the firm hires:
   A) 2 workers.  
   B) 3 workers.  
   C) 4 workers.  
   D) 5 workers.

9) Average variable cost is defined as:
   A) total variable cost divided by quantity.  
   B) quantity divided by total variable cost.  
   C) the change in total variable cost divided by the change in quantity.  
   D) the change in quantity divided by the change in total variable cost.

10) Average fixed cost is defined as:
    A) total variable cost divided by quantity.  
    B) quantity divided by total variable cost.  
    C) the change in total variable cost divided by the change in quantity.  
    D) total fixed cost divided by quantity.

11) Average total cost is defined as:
    A) total variable cost divided by quantity.  
    B) quantity divided by total variable cost.  
    C) the change in total variable cost divided by the change in quantity.  
    D) total cost divided by quantity.

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Table 8.3

12) Table 8.3 presents the cost schedule for Candy’s Cakes. If Candy produces four cakes, Candy’s total fixed costs are:
    A) $0.  
    B) $50.  
    C) $155.  
    D) $30.

13) Table 8.3 presents the cost schedule for Candy’s Cakes. If Candy produces one cake, Candy’s total variable costs are:
    A) $0.  
    B) $30.  
    C) $50.  
    D) $80.
14) Table 8.3 presents the cost schedule for Candy’s Cakes. If Candy produces two cakes, Candy’s marginal cost is:
   A) $0.  B) $20.  C) $25.  D) $50.

15) Table 8.3 presents the cost schedule for Candy’s Cakes. If Candy produces five cakes, Candy’s total costs are:
   A) $35.  B) $38.  C) $140.  D) $190.

16) Table 8.3 presents the cost schedule for Candy’s Cakes. If Candy produces three cakes, Candy’s marginal costs are:
   A) $0.  B) $25.  C) $75.  D) $41.67.

17) Table 8.3 presents the cost schedule for Candy’s Cakes. If Candy produces five cakes, Candy’s average total costs are:

18) Average total costs are minimized when:
   A) marginal costs begin to increase.  B) marginal costs begin to decrease.
   C) marginal cost is greater than average total cost.  D) marginal cost equals average total cost.

19) Figure 8.1 presents a firm’s marginal, average total, average fixed, and average variable cost curves. The marginal cost curve is represented by curve:

20) Figure 8.1 presents a firm’s marginal, average total, average fixed, and average variable cost curves. The average variable cost curve is represented by curve:

21) Figure 8.1 presents a firm’s marginal, average total, average fixed, and average variable cost curves. The average fixed cost curve is represented by curve:
22) Figure 8.1 presents a firm’s marginal, average total, average fixed, and average variable cost curves. The average total cost curve is represented by curve:


23) Figure 8.2 presents a firm’s marginal, average total, average fixed, and average variable cost curves. The firm faces fixed costs of:


24) Figure 8.2 presents a firm’s marginal, average total, average fixed, and average variable cost curves. The firm minimizes average total costs by producing ________ units.

A) 50  B) 100  C) 150  D) 200

25) Figure 8.2 presents a firm’s marginal, average total, average fixed, and average variable cost curves. The firm minimizes average variable costs by producing ________ units.

A) 50  B) 100  C) 150  D) 200

26) Suppose that your firm’s marginal cost of producing a magic marker is 50 cents and the average total cost of producing a magic marker is 80 cents. If your firm is interested in minimizing average total costs, what should your firm do?

A) Increase production.  B) Decrease production.
C) Maintain production at the current level.  D) Look for ways to reduce fixed costs.

27) Suppose a firm experiences lower average costs whenever output increases in the long run. Then we would expect the firm to have:

A) a U-shaped long-run average cost curve.
B) an L-shaped long-run average cost curve.
C) a long-run average cost curve that always decreases.
D) a minimum efficient scale relatively close to the origin.
28) Under which conditions might diseconomies of scale result?
A) hampered coordination brought about by bureaucracy
B) decreasing costs of inputs
C) increasing output prices
D) usage of a large amount of indivisible inputs by the firm

29) Which of the following is not a characteristic of a perfectly competitive market?
A) a large number of firms in a market
B) selling a standardized product
C) substantial barriers to entry
D) an individual firm having no control over price

30) Consumers do not have a strong preference for the output of one seller over that of another in a perfectly competitive market because:
A) there are a large number of firms in the market.
B) the firms sell a standardized product.
C) there are no barriers to entry.
D) an individual firm has control over price.

31) Christopher cannot control the price at which he sells his corn. Christopher sells his corn in:
A) a perfectly competitive market.
B) a monopoly.
C) a monopolistically competitive market.
D) an oligopoly.

32) Marginal revenue is equal to price for a perfectly competitive firm because:
A) total revenue increases by the price of the good when an additional unit is sold.
B) total revenue increases by less than the price of the good when an additional unit is sold.
C) firms need to lower price to increase the quantity sold.
D) firms can increase price and still increase the quantity sold.

33) Kevin’s Golf-a-Rama sells golf balls in a perfectly competitive market. At its current level of golf ball production, Kevin has marginal costs equal to $1, and AVC is rising. If the market price of golf balls is $2, Kevin should:
A) decrease the level of golf ball production.
B) continue producing the current level of production.
C) increase the production of golf balls.
D) shut down and produce no golf balls.

34) Farmer Brown sells her wheat in a perfectly competitive market. Suppose the current market price of wheat is $2.50 per bushel. If farmer Brown charges $2.51 for her wheat:
A) farmer Brown will sell slightly less wheat than her neighbors, but will still make a substantial profit.
B) farmer Brown will have to plant more acres of wheat to maximize her profit.
C) farmer Brown will sell no bushels of wheat.
D) farmer Brown will increase her total revenue.
35) Refer to Figure 9.1. The good is sold in a perfectly competitive market. If the market price of the good is $150, the profit maximizing level of output is:
A) 0.  B) 100.  C) 200.  D) 250.

36) Refer to Figure 9.1. The good is sold in a perfectly competitive market. If the market price of the good is $150 at the profit maximizing level of output, total profit is:
A) $0.  B) $4,000.  C) $5,000.  D) $30,000.

37) Refer to Figure 9.1. The good is sold in a perfectly competitive market. If the market price of the good is $150, at 100 units of output:
A) the firm can increase profit by increasing output.
B) the firm can decrease marginal costs by increasing output.
C) total profit is equal to $0.
D) total cost is equal to $12,500.

38) Refer to Figure 9.1. The good is sold in a perfectly competitive market. If the market price is $150, then at 200 units of output:
A) the firm can increase profit by increasing output.
B) the firm can decrease total costs by increasing output.
C) the firm can increase profit by decreasing output.
D) total profit is $4,000.

39) Refer to Figure 9.1. The good is sold in a perfectly competitive market. If the market price is $150, then at 200 units of output:
A) average revenue is equal to $150.  B) total revenue is equal to $150.
C) total cost is equal to $135.  D) per unit costs are greater than per unit revenues.
40) Refer to Figure 9.1. The good is sold in a perfectly competitive market. If this firm produces 250 units of output, and the market price is $150, then:
   A) the firm could increase profit by increasing output.
   B) the firm could increase profit by decreasing output.
   C) profit is maximized.
   D) average cost is equal to $175.

41) Refer to Figure 9.1. The firm’s short-run supply curve is:
   A) the marginal cost curve above $150.
   B) the marginal cost curve above $125.
   C) the marginal cost curve above $100.
   D) the marginal cost curve above $75.

42) Refer to Figure 9.1. If the price of the good is $150, then at 200 units of output, total profit is:
   A) 0.
   B) $20.
   C) $4,000.
   D) $30,000.

43) Refer to Figure 9.1. If the price of the good is $150, then at 200 units of output, total revenue is:
   A) $20.
   B) $150.
   C) $4,000.
   D) $30,000.

44) Refer to Figure 9.1. At 200 units of output, total cost is:
   A) $110.
   B) $130.
   C) $26,000.
   D) $30,000.

45) Refer to Figure 9.1. Total fixed cost is:
   A) $4000.
   B) $22,000.
   C) $26,000.
   D) not enough information to determine.

46) A firm will not shut down in the short run as long as price exceeds:
   A) average fixed cost at the level of output where marginal revenue equals marginal cost.
   B) average variable cost at the level of output where marginal revenue equals marginal cost.
   C) marginal cost at the level of output where marginal revenue equals marginal cost.
   D) total revenue at the level of output where marginal revenue equals marginal

47) The summation of all individual firm marginal cost curves above the minimum of the average variable cost curve:
   A) forms a curve that is usually downward sloping.
   B) defines the relationship between price and demand.
   C) defines the relationship between price and capacity output.
   D) is the market supply curve.

48) If a perfectly competitive firm charges a price that is equal to its average total cost:
   A) the firm is earning an economic profit equal to zero.
   B) the firm is earning an economic profit greater than zero.
   C) the firm is earning an economic profit less than zero.
   D) it is not possible to determine anything about the firm’s profits.
49) Refer to Figure 9.3. If the price of the good is $60, we can expect:
   A) firms to exit this market.
   B) firms to enter this market.
   C) no change concerning the number of firms in this market.
   D) an increase in market price as firms enter this market.

50) Refer to Figure 9.3. If the price of the good is $60, we can expect that price to:
   A) increase as firms exit this market.
   B) decrease as firms enter this market.
   C) remain at its current level indefinitely.
   D) do none of the above, since we have no information about what will occur in the future.

51) Refer to Figure 9.3. In the long run, the price of the good will be
   A) $60.
   B) $50.
   C) $40.
   D) There is not enough information to determine the long-run price of the good.

52) All of the following are examples of possible barriers to entry, except:
   A) patents to produce a particular product.
   B) the American Bar Association's rule that lawyers must pass an exam before practicing law.
   C) average cost in the industry decreasing as a firm's output increases.
   D) None of the above; they are all examples of possible barriers to entry.
53) The demand curve that a monopolist faces is:
   A) the market demand curve.
   B) the same as the demand curve that faces a perfectly competitive firm.
   C) not affected by changes in the prices of other goods.
   D) generally flatter than the demand curve that faces a perfectly competitive firm.

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</table>

Table 10.1

54) Refer to Table 10.1, which shows the relationship between the price that Gladys charges for a product and the quantity of that product that Gladys sells. The total revenue that Gladys receives from selling four units of output is:

55) Refer to Table 10.1, which shows the relationship between the price that Gladys charges for a product and the quantity of that product that Gladys sells. The marginal revenue that Gladys receives from selling the fourth unit of output is:

56) A monopolist maximizes profits by setting:
   A) marginal revenue equal to marginal cost. B) marginal revenue greater than marginal cost.
   C) marginal revenue less than marginal cost. D) total revenue as high as possible.
57) Figure 10.1 shows a monopolist’s marginal cost curve, demand curve, and marginal revenue curve. The marginal cost of producing the eighth unit is:

58) Figure 10.1 shows a monopolist’s marginal cost curve, demand curve, and marginal revenue curve. The marginal revenue from selling the fourth unit of output is:
   A) $6.          B) $5.          C) $4.          D) none of the above

59) Figure 10.1 shows a monopolist’s marginal cost curve, demand curve, and marginal revenue curve. The profit maximizing output for the monopolist is:
   A) 4 units.      B) 8 units.      C) 15 units.     D) none of the above

60) You are an economist working for the monopolist whose marginal cost curve, demand curve, and associated marginal revenue curve are depicted in Figure 10.1. Suppose that the monopolist is currently charging a price of $7 per unit of output. What would you recommend to the firm?
   A) Lower the price to sell more units.
   B) Raise the price, but sell fewer units.
   C) Raise the price of output, but also raise your cost of production.
   D) not enough information to solve

61) How do monopoly prices and quantities produced differ from perfectly competitive outcomes?
   A) Monopoly prices and quantities are both lower than competitive outcomes.
   B) Monopoly prices and quantities are both higher than competitive outcomes.
   C) Monopoly prices are lower than competitive prices but monopoly quantities are higher than competitive quantities.
   D) Monopoly prices are higher than competitive prices but monopoly quantities are lower than competitive quantities.
62) Which of the following is most accurate?
   A) In all cases, competitive markets yield more consumer surplus than would be enjoyed in a monopoly market.
   B) In all cases, competitive markets yield less consumer surplus than would be enjoyed in a monopoly market.
   C) In some cases, competitive markets can yield less consumer surplus than would be enjoyed in a monopoly market.
   D) In all cases, competitive markets yield the same consumer surplus that would be enjoyed in a monopoly market.

63) In the long run, the main reason that a monopolist can earn positive economic profits while a perfectly competitive firm cannot is:
   A) monopolists enjoy greater economies of scale.
   B) there are no barriers to entry in a perfectly competitive market.
   C) the monopolist faces an inelastic demand for its product.
   D) perfectly competitive firms face greater opportunity costs.

64) Consider an industry with a demand curve, marginal revenue curve, and long-run cost curve as illustrated in Figure 10.4. Total surplus in a competitive market can be illustrated as:
   A) CGF.  B) BCFE.  C) ACB.  D) AGE.

65) Consider an industry with a demand curve, marginal revenue curve, and long-run cost curve as illustrated in Figure 10.4. Total surplus in a monopoly market can be illustrated as:
   A) ABC.  B) CGF.  C) BCFE.  D) BCGE.

66) Consider an industry with a demand curve, marginal revenue curve, and long-run cost curve as illustrated in Figure 10.4. The deadweight loss associated with a monopoly is:
   A) CGF.  B) BCFE.  C) ACB.  D) AGE.
67) To maximize profit, an unregulated natural monopoly will produce at a level where:
   A) marginal revenue is greater than marginal cost.
   B) marginal revenue is greater than average revenue.
   C) marginal revenue is less than marginal cost.
   D) marginal revenue is equal to marginal cost.

68) When there are just a few firms in the industry, the industry structure is most likely to be:
   A) a perfectly competitive industry.  
   B) an oligopoly market.  
   C) a monopoly market.  
   D) a natural monopoly market.

69) Which one of the following is the best example of an oligopolistic industry?
   A) cigarettes  
   B) wheat growers  
   C) apple growers  
   D) public utilities

70) When firms cooperate with each other rather than compete:
   A) consumers will end up better off.  
   B) the firms will end up better off.  
   C) both consumers and firms end up better off.  
   D) they will agree to set low prices to help each other out.

71) In general, firms in a cartel:
   A) agree to set price equal to marginal cost.  
   B) do not consider the actions of the other firms in the cartel when making output decisions.  
   C) produce levels of output exceeding the monopoly output level.  
   D) agree to charge the price the monopolist would charge.

72) Consider Figure 12.2. Becky’s dominant strategy is ______ and David’s dominant strategy is ______.
   A) high; high  
   B) low; low  
   C) high; low  
   D) low; high

Figure 12.2
73) Consider Figure 12.2. Choosing a high price is:
   A) a dominant strategy for David but not for Becky.
   B) a dominant strategy for Becky but not for David.
   C) a dominant strategy for both David and Becky.
   D) not a dominant strategy for either David or Becky.

74) Consider Figure 12.2. The outcome of the game will be that:
   A) both choose a high price.
   B) both choose a low price.
   C) Becky chooses a high price and David chooses a low price.
   D) David chooses a high price and Becky chooses a low price.

75) Consider Figure 12.2. If Becky’s payoff in the top rectangle were 200 instead of 90, the outcome of the game would be that:
   A) both choose a high price.
   B) both choose a low price.
   C) Becky chooses a high price and David chooses a low price.
   D) David chooses a high price and Becky chooses a low price.

76) A dominant strategy is one that:
   A) maximizes profits.
   B) is optimal under some conditions.
   C) never yields a negative payoff.
   D) is the best choice under all conditions.
77) Consider Figure 12.3. If player A confesses and player B does not, then:
   A) both players spend 4 years in jail.
   B) both players spend 1 year in jail.
   C) player A spends 0 years in jail, and player B spends 8 years in jail.
   D) player A spends 8 years in jail, and player B spends 0 years in jail.

78) Duopoly pricing, grim trigger strategy, and tit-for-tat all promote cartel pricing by:
   A) penalizing the underpricer.
   B) making underpricing impossible.
   C) increasing the chance of an underpricer being caught by the rest of the cartel.
   D) making entry impossible.

79) Which conditions must hold if a firm is to engage in price discrimination?
   A) It must be extremely difficult, if not impossible, for one consumer to resell a product to another.
   B) Firms must have a sufficiently low amount of market power.
   C) Consumers must have very similar preferences for the product.
   D) all of the above

80) In order to practice price discrimination a firm must:
   A) avoid detection by the government.
   B) be able to divide consumers into groups with different demands for their product.
   C) calculate the utility of different consumer groups for their product.
   D) advertise their product.
81) If we observe a firm engaging in price discrimination, it must be true that:
   A) The firm is enjoying higher total profits than it would have earned if it charged a single price for the product.
   B) The firm can identify the preferences of every customer it serves.
   C) The firm earns higher profits per unit than it would have earned if it charged a single price for the product.
   D) All of the above are correct.

82) The "advertisers' dilemma" is:
   A) how to decide how much advertising is optimal.
   B) how to decide which time slots will reach the most relevant group of consumers.
   C) that each firm would be better off if no firms advertised.
   D) that some consumers are not sensitive to advertising.

83) Which of the following is not true about the market for eyeglasses?
   A) Eyeglass advertising helps consumers make informed decisions.
   B) Eyeglass prices are higher in states with no advertising.
   C) Eyeglass price advertising discourages competition between firms.
   D) All of the above are true.

84) At one time, Pepsi commercials advertised the results of blind taste tests that compared Pepsi to Coke. The benefit of this advertising was that the advertisements:
   A) increased the cost of production.
   B) discouraged entry into the industry.
   C) provided consumers with information about Pepsi's product.
   D) None of the above; there are no benefits to the public from this type of advertisement.

85) The purpose of antitrust policy is to:
   A) promote competition among firms.       B) increase profits to firms.
   C) protect domestic firms from foreign trade. D) both A and B

86) Under the Sherman Anti-trust Act of 1890:
   A) the Federal Trade Commission was established.
   B) tying contracts were made illegal.
   C) practices that resulted in restraint of trade were made illegal.
   D) mergers that would substantially reduce competition were made illegal.

87) The Clayton Act of 1914:
   A) prohibited selling products at "unreasonably low prices" with the intent of reducing competition.
   B) made it illegal to monopolize a market.
   C) repealed the Sherman Act.
   D) outlawed price discrimination for the purpose of reducing competition.
88) The government is likely to block a merger if:
   A) the firms remaining would all earn economic profit.
   B) it can be established that the merger would substantially reduce competition.
   C) the firms remaining would be able to charge a price above marginal cost.
   D) the firms that are merging are producing different products.

89) One of the forces behind the pressure to deregulate the electricity market was:
   A) because price was set equal to average cost firms had no incentive to control their costs.
   B) prices of electricity were different even if the costs of producing it were identical.
   C) the development of alternative technology made electricity generation a natural monopoly.
   D) All of the above were forces behind the pressure to deregulate.

90) Price fixing is:
   A) illegal in the United States.
   B) legal but difficult to implement.
   C) extremely common, especially in industries with lots of firms.
   D) good for consumers since it prevents prices from changing.
MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) D  
2) B  
3) B  
4) B  
5) B  
6) A  
7) C  
8) A  
9) A  
10) D  
11) D  
12) B  
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46) B  
47) D  
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Testname: ECON-201-TEST-2-REVIEW.TST

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86) C
87) D
88) B
89) A
90) A