1st Exam

1. Marginal utility measures:
A) the total utility of all your consumption
B) the total utility divided by the price of the good
C) the increase in utility from consuming one additional unit
D) none of the above

2. Given consumption is positive for both commodities, then an individual is consuming where:
A) the price ratio is equal to the marginal rate of substitution
B) total utility is at its highest attainable level
C) the utility gained from spending a dollar on either good is the same
D) all the above are true

3. Suppose the marginal utility of pretzels is a constant 3 utils and the marginal utility of potato chips is a constant 2 utils. If the price of pretzels is $2.00 and the price of potato chips is $1.00, then we know that:
A) the equilibrium will be a corner solution
B) potato chips and pretzels are perfect substitutes
C) the indifference curves will be linear
D) all the above are true

4. A parallel shift in the budget constraint occurs when:
A) the income changes
B) the price of one good falls and the price of the other rises
C) both income and prices decrease
D) the price of horizontal good increases

5. The Price Consumption Curve:
A) is used to derive the demand curve
B) assumes all other prices remain constant
C) assumes income remains constant
D) all the above

6. If price elasticity of a good is inelastic; total expenditures will _____________ as the price rises:
A) increase
B) decrease
C) stay the same
D) depends the amount of the price changes

7. Cindy's cross-price elasticity of magazine demand with respect to the price of books is

.61, this means that, for Cindy, magazines and books are ______________ and that an increase in the price of books would cause her magazine demand to ___________.

A) complements ; increase
B) complements ; decrease
C) substitutes ; increase
D) substitutes ; decrease

8. If Macaroni and Cheese is an inferior good, its Engel curve:

A) slopes downward
B) slopes upward
C) is perfectly flat
D) has nothing to do with its being inferior

9. Tom's income falls by 3%. At the same time, his demand for fine wine falls by 4%. All other things remaining the same, Tom treats fine wine as a(n):

A) inferior good
B) normal good
C) luxury good
D) substitute good

10. Two goods are complements if:

A) an increase in the price of one reduces demand for the other
B) a decrease in the price of one reduces demand for the other
C) an increase in the price of one increases demand for the other
D) an increase in income lowers demand for both goods

11. The income effect:

A) shows how quantity demanded changes due to real income changes
B) shows how quantity demanded changes as nominal income changes
C) is positive for a price increase if the good is luxury
D) none of the above

12. You are willing to pay a scalper up to $50 for concert tickets. If you win free tickets from the local radio station, your consumer surplus is:

A) $0
B) $50
C) less than $50
D) more than $50

13. The earthquake in Kobe, Japan decreased the supply of computer memory, which increased the price of new computers. When this occurred,

A) consumer surplus increased
B) consumer surplus decreased

C) deadweight social loss increased
D) Both B and C are correct

14. If the price of pizza increase, Mike will consume:
A) more pizza than before
B) less pizza than before
C) the same amount of pizza
D) not enough information to tell

15. The smaller the quantity demanded of a good:
A) the larger the income effect
B) the smaller the income effect
C) the larger the substitution effect
D) the smaller the substitution effect

16. Normally, a price change moves an individual to a new indifference curve. At the new prices, the amount of income necessary to move the individual to the old level of utility is called:
A) an equivalent variation
B) a Slutsky variation
C) Marshallian consumer surplus
D) a compensating variation

17. When comparing equivalent and compensating variation, we know that:
A) the two figures will be the same
B) equivalent variation will be greater
C) compensating variation will be greater
D) None of the above

18. The labor supply curve has a negative slope when:
A) the substitution effect is greater than the income effect
B) the income effect is greater than the substitution effect
C) the income effect is equal to the substitution effect
D) none of the above

19. Suppose Sharon can earn $5 an hour and her time endowment is 40 hours a week. Her budget constraint can be written as:
   A) Consumption = 5 * (40 - hours worked)
   B) Consumption + 5 * (Leisure hours) = 200
   C) Consumption = 5 * (40 - work hours)
   D) Both A and B are correct

20. Doctor Susan worked 46 weeks a year when her wage was $500 an hour. Now at a wage of $750 an hour, Susan will work:
   A) More than 46 weeks a year
   B) Less than 46 weeks a year
   C) Equal to 46 weeks a year
   D) Cannot tell from information given

Answer Key

1. C
2. D
3. D
4. A
5. D
6. A
7. C
8. A
9. C
10. A
11. A
12. B
13. B
14. D
15. B
16. D
17. D
18. B
19. B
20. D

2^{nd} Exam

1. Old models of cars sell for less than new models. This is due to:
A) imputed costs
B) depreciation
C) sunk expenditure
D) None of the above

2. If a firm does not shutdown, it wants to produce where:
A) average revenue equals average cost
B) total revenue equals total cost
C) marginal revenue equals marginal cost
D) marginal cost is minimized

Use the following to answer questions 3-4:

Quantity	Total Revenue	Marginal Revenue	Total Cost	Marginal Cost	Profit
0	**$0**	**---**	**$0**	**---**	**$0**
1	**$10**	**$10**		**$5**	
2	**$20**	**$10**	**$11**		
3	**$30**	**$10**		**$8**	
4	**$40**	**$10**	**$30**		

3. The average cost of producing 3 units of output is:
A) $8
B) $19
C) $6.33
D) $5

4. According to Table 7.4, if the price of the good (and therefore the marginal revenue in this case) fell to $4, a firm would maximize profit at :
A) 0 units
B) 1 unit
C) 2 units
D) 3 units

5. A curve showing all the input combinations that yield the same level of output is called:
A) an indifference curve
B) a supply curve
C) a cost curve
D) an isoquant curve

6. A firm's long run production situation occurs when:
A) it is earning profits
B) there are no fixed factors
C) total cost is minimized
D) total revenue is maximized

7. If MPP_A and MPP_B represent the marginal physical products of two inputs, then the marginal rate of technical substitution would be:
A) $MPP_A * MPP_B$
B) MPP_A / MPP_B
C) $MPP_A - MPP_B$
D) $MPP_A + MPP_B$

8. The production function $F(K,L) = 5 * K^{1/3} * L^{1/3}$ exhibits:
A) decreasing returns to scale
B) increasing returns to scale
C) constant returns to scale
D) None of the above

9. If a firm triples its inputs and output goes up 400% , the production function would have:
A) increasing returns to scale
B) decreasing returns to scale
C) constant returns to scale
D) none of the above

10. A possible explanation for increasing returns to scale is:
A) the ability to specialize for big firms
B) managerial problems with control
C) cheaper inputs on volume orders
D) both A and C are correct

11. On an isoquant map, an increase in the firm's level of output is shown by movement:
A) downward on a given isoquant
B) upward on a given isoquant
C) to a lower isoquant
D) to a higher isoquant

12. The line representing input combinations that cost the same amount to the firm is called:
A) isocost line
B) isoquant line
C) budget constraint
D) none of the above

13. Linda wants to open a T-shirt stand for Homecoming week. The school will license her a booth for $100. Each T-shirt from the store will cost her $4. Linda's average cost function will be:
A) $100 + $4 * X
B) $100 / X + $4
C) $104 / X
D) $100 / X + $4 / X

14. Suppose an output has the usual convex isoquants. An increase in the price of input A would cause:
A) factor substitution toward input B
B) factor substitution toward input A
C) an increase in the use of both inputs
D) both A and C are correct

15. A firm has only two inputs, iron and steel. Suppose that steel is the fixed factor in the short-run. The firm's short-run total cost curve:
A) does not depend on the level of steel
B) shifts upward as the level of steel increases
C) has its slope increase as the level of steel increases
D) shifts downward as the level of steel increases

16. The firm's short-run marginal cost is the change in the short-run:
A) total cost due to the use of one more unit of input
B) average cost due to the use of one more unit of input
C) total cost due to the production of one more unit of output
D) Average cost due to the production of one more unit of output

17. Given that a firm is a price taker, the ___________ the marginal physical product, the _________ the marginal cost of output.
A) higher : higher
B) lower : lower
C) lower : higher
D) None of the above

18. The marginal revenue product of an input is:
A) marginal physical product (MPP) * marginal revenue of output

B) marginal physical product - marginal revenue of output
C) marginal factor cost - marginal revenue of output
D) price of output / price of input

19. If a firm is a price-taker when buying inputs, the marginal factor cost will:
A) have a positive slope
B) have a negative slope
C) be a horizontal line
D) be a vertical line

20. A firm profit-maximizing level of output generates a total revenue of $2000. The firm's costs are as follows: total cost = $4000, total variable cost = $1500, total fixed cost = $2500. In the short-run, the firm should:
A) leave output at its current level
B) increase output
C) decrease output
D) shut-down

Answer Key -- Fall '98 Mideterm 2

1. B
2. C
3. C
4. A
5. D
6. B
7. B
8. A
9. A
10. D
11. D
12. A
13. B
14. A
15. D
16. C
17. C
18. A
19. C
20. A

3rd Exam

1. The perfectly competitive model assumes that:
A) buyers and seller are price takers
B) there are no barriers to entry or exit
C) suppliers cannot behave strategically
D) all of the above

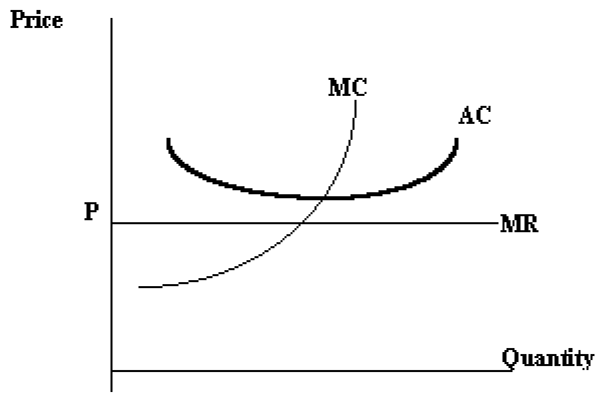
2. A homogeneous good is a good:
A) with many perfect substitutes
B) with many perfect complements
C) whose demand has unit elasticity
D) with many goods of the same price

3. Given the usually shaped supply and demand curves, if demand is more elastic than supply, the greater burden of a unit tax falls on:
A) producers
B) consumers
C) equally share
D) cannot tell from information given

4. The demand curve that a price taker faces is :
A) perfectly inelastic
B) unitary elastic
C) perfectly elastic
D) has a negative slope

5. The supply curve for a competitive industry is found by summing up:
A) vertically summing up the average cost curves of the firms
B) vertically summing up the supply curves of the firms
C) horizontally summing up the supply curves of the firms
D) none of the above

Diagram 11.1



6. According to diagram 11.1, the firm is currently earning:
A) positive profit
B) zero profit
C) negative profit
D) cannot tell from information given

7. According to diagram 11.1, other firms will _________ and force prices to________
A) exit : rise
B) enter : rise
C) enter : fall
D) stay out : stay the same

8. The government recently decided to try to reduce the deficit by imposing a 3% tax on alcohol purchases. This is an example of:
A) economic incidence of a tax
B) unit tax
C) ad valorem tax
D) none of the above

9. If only two firms produce goods for market. If the goods are homogeneous, the marginal rate of substitution between them is:
A) zero
B) one
C) infinity
D) varies at some positive rate

10. A tax is imposed on cigarettes. The economic incidence of that tax _______ the statutory incidence of that tax.
A) always equals
B) always exceeds
C) always falls
D) can be any of the above

11. With a monopoly:
A) firms do not behave strategically
B) there is free entry and exit from the market
C) buyers are price makers
D) all the above are correct

12. Given a downward sloping demand curve, a market that moves from competition to a monopoly will:
A) have excess burden
B) see a decrease in total surplus
C) see an increase in total surplus
D) both A and B are correct

13. For a monopoly, the relationship between MR and elasticity of demand is that:
A) both have the same slope
B) the more elastic the demand, the lower the marginal revenue
C) the more inelastic the demand, the lower the marginal revenue
D) there is no relationship between the two

14. If the monopoly is a perfect price discriminator, then its marginal revenue curve:
A) depends on the marginal cost curve
B) is the same as the market demand curve
C) intersects the demand curve at its midpoint
D) lies somewhere below the market demand curve

15. If a single firm can produce industry output at a lower cost than any other number of firms, this is called:
A) an increasing cost industry
B) a natural monopoly
C) the marginal output rule
D) none of the above

16. For price discrimination to be effective, a firm **must**:
A) be a price maker
B) be able to discern a consumer's maximum price
C) be able to prevent arbitrage
D) all of the above

17. If the elasticity of market demand is ___________, the marginal revenue for a monopolist would be ___________:
A) larger than one : positive
B) less than one : positive
C) equal to one : negative
D) equal to one : positive

18. Free entry in to a market with a cartel will:
A) cause the price to fall until it equals average cost
B) cause the price to rise until it equals marginal cost
C) decrease the quantity produced in the market
D) none of the above

19. Two goods are heterogeneous if:
A) the two goods are in different markets
B) two goods that are perfect complements
C) two goods that are perfect substitutes
D) two goods that are close substitutes

20. Under monopolistic competition, in the long-run, the firm will earn:
A) positive economic profit
B) zero economic profit
C) negative economic profit
D) cannot tell from information given

21. When suppliers jointly work to restrict output in order to control the price, the firms act like a:
A) a monopsony
B) monopolistic competition
C) a natural monopoly
D) a cartel

22. A perfectly competitive and monopolistically competitive market are alike in that:
A) both have downward sloping market demands
B) both have zero economic profit in the long run
C) both have free entry and exit
D) all of the above

23. To have an oligopoly, it **must** be the case that:
A) firms are price takers
B) firms act strategically
C) there are barriers to entry and exit
D) all of the above

24. A Nash equilibrium occurs when:
A) each member of a duopoly is making a profit
B) the price equals average cost for all firms in a market
C) each firm is choosing its best response given the other firms' strategies
D) all the above

25. The firm-specific demand curve faced by a firm, given the strategies chosen by other rivals is called:
A) the total profit curve
B) the imputed demand curve
C) the inframarginal curve
D) the residual demand curve

26. Given that the total market demand for Cds is Q = 10 - P. If the production technology has constant marginal cost of $3, the price for the good in a market with Cournot Duopoly will be:
A) $7
B) $14
C) $5.33
D) none of the above

27. A market with just two producers is called a:
A) bilateral monopoly
B) a Bertrand cartel
C) a Cournot cartel
D) a duopoly

28. A market with many buyers is a sign of a _____________ market:
A) monopoly
B) perfect competition
C) oligopoly
D) all of the above

29. Given that market demand is given as Q = 15 - P, both firms in a Cournot oligopoly have constant marginal costs of $6. The firm A will produce __________ units and firm B will produce __________.
A) 6 : 6
B) 6 : 9
C) 3 : 3
D) 3 : 12

30. Equilibrium for a monopolist occurs when:
A) price equals marginal cost
B) price equals marginal revenue
C) price is less than average cost
D) marginal revenue equals marginal cost

Answer Key -- '98Final

1. D
2. A
3. A
4. C
5. C
6. C
7. A
8. C
9. B
10. D
11. A
12. D
13. C
14. B
15. B
16. D
17. A
18. A
19. D
20. B
21. D
22. D
23. B
24. C
25. D
26. C
27. D
28. D
29. C
30. D