

Name: Samer Hanna Instructor: \_\_\_\_\_

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1. Multiple Choice (70%)

1. Which of the following planning problems is long run?
- a. how to get more recreation basketball league hours scheduled in the three gyms next month
  - b. how many more students can be admitted to the business program given the size of the economics department
  - c. how many students can the university "produce" assuming it can build the required dormitories, athletic facilities, and classroom space and hire the staff
  - d. how many students can the university "produce" with its existing faculty

2. A microcomputer manufacturer sells 1,000 units per month at \$2,500 each. A price cut to \$2,000 is being considered. His marginal cost is constant at \$1,500 per unit. To maintain profits, quantity sold must increase to at least

- a. 1,500.
- b. 2,000.
- c. 2,500.
- d. 3,000.
- e. 3,500.

$2,500,000 - 1,500,000 = 1,000,000$  profit  
 $2,000 = 2,000 \Rightarrow 2,000x - 1,500x = 1,000,000$   
 $x = \text{quantity} \Rightarrow x = 2,000 \text{ unit}$

3. Many states sell vanity license plates to raise revenue. Figure 11-5 shows the demand and marginal revenue curves for vanity plates. Since the plates are manufactured by convicts, one can assume marginal cost is negligible. At which point on the demand curve is revenue from the sale of vanity plates maximized?

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

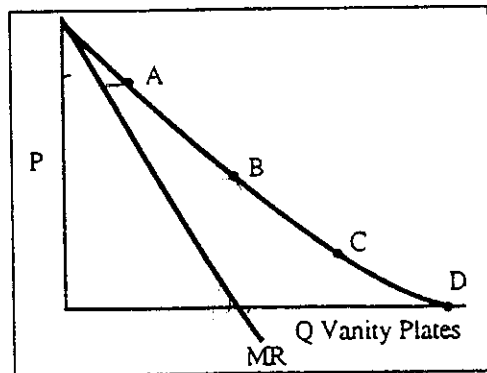


FIGURE 11-5

4. Which of the following is the best statement of the law of diminishing returns?
- a. "Studies of the airline industry observed that as labor, airplanes, and terminal space increased, the marginal product of airplanes tended to fall."
  - b. "We doubled the size of our operations by replicating our existing operation at another location, but our overall productivity fell because two operations were more difficult to manage."
  - c. "We thought that by adding airplanes we could make our use of existing crews and terminal space more efficient. We were able to serve more passengers, but the additional output was well below that produced by the last two planes added."
  - d. "We added five more trucks and five more drivers, a 10 percent increase, but output only increased 8 percent."
  - e. All of the above are correct.

70  
30  
40  
2x

TR = 500,000  
MC = 1500  
MR = 2000

TR  
MR

1,500,000

2,000,000

2

5. In which of the following ways is a monopolist different from a perfect competitor?
- a. Average cost will continually drop as output expands.
  - b. Price is above marginal revenue.
  - c. Average total cost equals average fixed costs plus average variable costs.
  - d. The demand curve for the industry has a negative slope.
  - e. All of the above are true.

6. In Figure 9-4, which is the total revenue curve of the perfect competitor?

- a. A
- b. B
- c. C

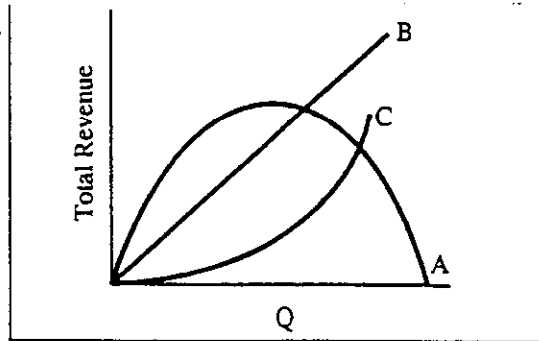


FIGURE 9-4

7. Helga owns Viking, Inc., which she started with a \$100,000 inheritance. According to her accountant, her profit of \$100,000 for last year should be invested at the market rate, which is currently 5 percent. If Helga did not run Viking, she would not work. What were Helga's economic profits?

- a. zero
- b. \$5,000
- c. \$10,000
- d. \$90,000
- e. \$95,000

$= 100,000 \times 0.05 = 5,000$   
 $100,000 - 5,000 = 95,000$

Table 11-1

Q	TR	MR	TC
8	95	45	90
9	102	38	93
10	110	30	100
11	112	22	105
12	115	15	110

we know  $P$   
 $TR = ?$   
 $TR = P \times Q$   
 $P$

8. In Table 11-1, the price at the profit-maximizing output is how much?

- a. \$15
- b. \$7
- c. \$10
- d. \$11

$TR = 110$   
 $Q = 10$   
 $P = 11$

9. In Table 11-1, marginal revenue at the profit-maximizing output is how much?

- a. \$5
- b. \$7
- c. \$8
- d. \$110

10. In Table 11-1, average cost at the profit-maximizing output is how much?

- a. \$5
- b. \$8
- c. \$10
- d. \$11

11. In Table 11-1, marginal cost of the last unit produced at the profit-maximizing output is how much?

- a. \$5
- b. \$7
- c. \$8
- d. \$10

12. Allie's Donuts produces about 600 dozen doughnuts per day. Due to bad weather, there is a shortage of wheat and the price of flour has risen 20 percent. Which of the cost curves for Allie's will shift up?

- a) marginal cost only
- b) marginal cost and average total cost
- c) marginal cost, average variable cost, and average total cost
- d) marginal cost, average variable cost, average total cost, and average fixed cost

TC = 4000  
ATC = 200  
AVC =

13. In Figure 6-5 at output of 500, marginal cost equals

- a. 100.
- b. 200.
- c. 300.
- d. 400.

$\frac{TC \text{ over}}{Q} = \frac{4000}{2000} = 200$

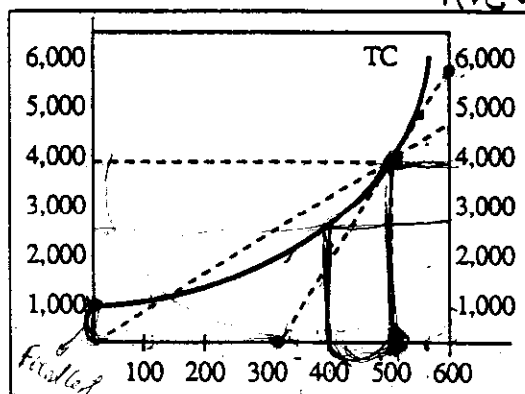


FIGURE 6-5

14. In Figure 6-5 at output of 500, average fixed cost equals

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

15. In Figure 6-5, average cost equals

- a. 4,000.
- b. 200.
- c. 8.
- d. 6.

$4000 - 1000 = 3000$   
 $\frac{3000}{500} = 6$

16. In Figure 6-6 at 100 units, AFC equals

- a. 10.
- b. 100.
- c. 1,000.
- d. 180.

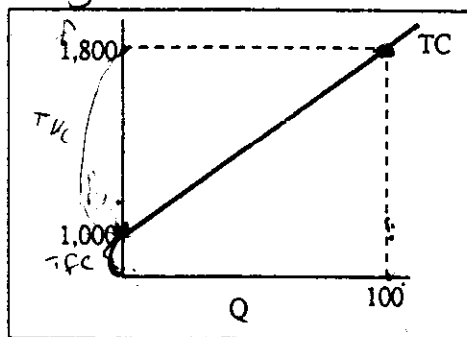


FIGURE 6-6

17. In Figure 6-6 at 100 units, MC equals

- a. 8.
- b. 80.
- c. 800.
- d. 1,800.

18. In Figure 6-6 at 100 units, TVC equals

- a. 1,000.
- b. 1,800.
- c. 800.
- d. 80.

19. In Figure 6-6 at 100 units, FC equals

- a. 1,000.
- b. 1,800.
- c. 800.
- d. 80.

20. In Figure 6-6 at 100 units, AVC equals

- a. 8.
- b. 800.
- c. 100.
- d. 1,000.

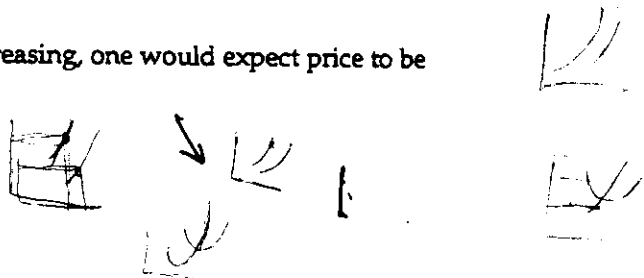
$800 / 100$

21. An airline can profit by offering standby customers an unsold seat at a substantial discount just before takeoff because

- a. additional passengers are needed to balance the load.
- b. the marginal cost of additional passengers is very small.
- c. additional passengers add little to fixed costs.
- d. such passengers add more to profits than do those with reserved seats.

22. When economies of scale are present, MC
- costs per unit decline as output expands.
  - the government feels responsible for breaking up the firm. ✗
  - firms always make handsome profits.
  - costs fall as the size of the product is increased. TC
  - All of the above are correct.

23. If the number of firms in a competitive industry is decreasing, one would expect price to be
- greater than MC
  - less than MC.
  - greater than AC.
  - less than AC.
  - less than MR.



24. As the demand for a product falls, it is not uncommon for the industry to become a monopoly. This is most likely due to
- an increase in the number of barriers. ✗
  - legal restrictions being imposed. ✓
  - the surviving firm operating on the declining part of its average cost curve. —
  - patent protection causing high prices. ✓
  - all of the above.

25. Which of the following can serve as an entry barrier?
- legal restrictions
  - patents
  - control of scarce resources or inputs
  - economies of scale
  - all of the above

$750000 - 350000 = 400000$   
 $3000000 - 2500000 = 500000$   
 $TR = 280,000$   
 $P_s = 1.40$   
 $MC = 1.00$   
 $1 = 0.4$

26. A producer of canned sardines sells 1 million cans per year and is contemplating dropping the price from 75 cents to 50 cents per can. It costs him a constant 40 cents per can to produce. If the price cut is to increase profits, quantity sold will have to increase by more than
- 2.5 million cans. ✗
  - 3 million cans. ✗
  - 3.5 million cans. ✓
  - 4 million cans.
  - 4.5 million cans.

$PK = 1.00$   
 $Q = 2.5 \times 10^6$   
 $2500000$

27. Is the monopolist supply decision more complicated than the competitive supply decision?
- Yes, because of the need to choose both price and quantity. ✓
  - Yes, because of the need to choose price (but not quantity). ✗
  - No, because the market determines the quantity for the monopolist. ✗
  - No, because the market determines the price for both firms. ✗
  - No, because supply is equally complicated in both industries. ✗

28. In perfect competition, an increase in fixed cost will eventually cause all *except* a(n)
- reduction in industry output.
  - reduction in a firm's output. ✓
  - reduction in the number of firms.
  - decrease in industry supply.
  - increase in price. ✗

29. To be a natural monopoly a firm must
- control an essential natural resource input ✗
  - be very large
  - have a continuously falling average cost curve as output rises
  - have falling average costs over a substantial range of total market demand

X  
Y  
✓  
✓  
X  
X  
S

30. The firm in Figure 11-4 is an unregulated monopolist; it will produce which of the following?
- 150 units at a price of 7
  - 100 units at a price of 6
  - 100 units at a price of 9
  - about 210 units at about 6.5
  - 150 units at a price of about 7.5

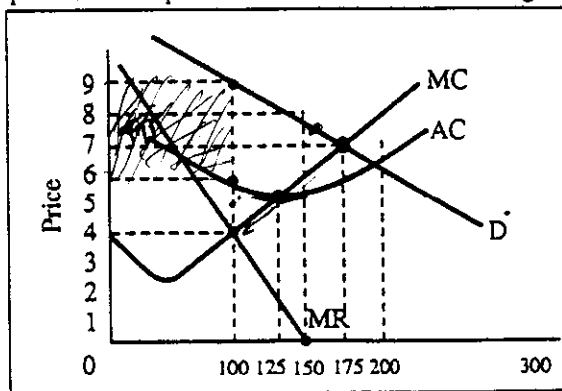


FIGURE 11-4

31. The firm in Figure 11-4 is an unregulated monopolist; it will earn long-run profits of how much?
- 500
  - 400
  - 300
  - 200
  - 0

32. For the firm in Figure 11-4, an unregulated monopolist, the price elasticity of demand is equal to one at
- output 175; price 7.
  - output 150; price 7.5.
  - output 125; price 8.
  - output 100; price 9.
  - It cannot be determined.

33. For the firm in Figure 11-4, an unregulated monopolist, output falls below the efficient level in the short run by how much?
- 50
  - 75
  - 35
  - 100
  - 125

John Acracker owns orange groves and hires pickers for a two-week period. The number of oranges picked as labor intensifies is shown in Table 6-2

Table 6-2

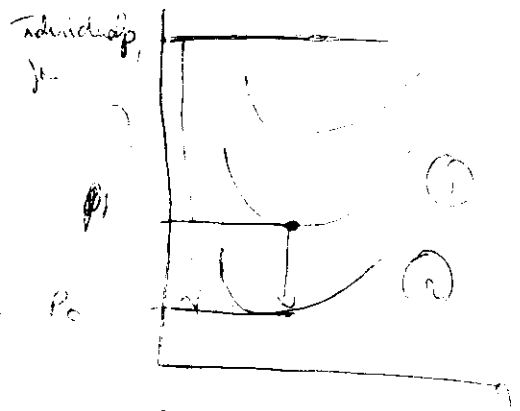
Pickers	Oranges Picked
1	1,000
2	2,000
3	3,000
4	3,900
5	4,700
6	5,400
7	6,000
8	6,200
9	6,000
10	5,500

34. In Table 6-2, diminishing returns set in with picker
- 3.
  - 4.
  - 5.
  - 6.
  - 9.
35. In Table 6-2, negative returns set in with picker
- 6.
  - 7.
  - 8.
  - 9.
  - 10.

15% 11. As the electronics industry has grown more mature and new technologies have been developed, the costs of many electronic products have fallen dramatically. Is this evidence that the long-run average cost curve slopes downward to the right? Explain.

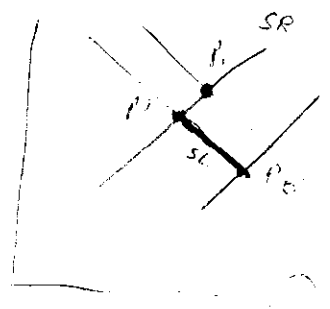
No this is not an evidence. ~~There is~~ <sup>no</sup> direct relation between technology, which will increase efficiency, and the LR Average cost declining. ~~the LR average cost could be~~ <sup>(constant, falling, or increasing)</sup> ~~constant~~ <sup>of technology</sup> ~~or constant~~ <sup>on constant</sup>

All of that depends on the position of the average long cost and its



mobility of us

Marko



considering a decrease in demand of price will P

If average long curve move from position (1) to (2), in the long-run price will be amplified unless by firms to reach lower P. ~~It will be~~ <sup>because</sup> on the market a ~~shift~~ <sup>right</sup> shift of the supply curve ~~observed~~ <sup>observed</sup>, in the long run ~~the~~ <sup>implying</sup> the long-run supply curve (which is moving down) ~~that is decreasing~~

It is the same for

~~It is the same for~~ <sup>It is a steeply downward sloping industry</sup>  
~~It is a steeply downward sloping industry~~ <sup>It is a steeply downward sloping industry</sup>  
~~It is a steeply downward sloping industry~~ <sup>It is a steeply downward sloping industry</sup>

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