**Do Not Turn This Page Until Instructed to Do So!**

# ECON 211 – Sections 3& 4

## (Prof. Nader Kabbani)

## Quiz 2 – Spring 2003

Student's Name: ______________________________

I.D. Number: ______________________________

## Instructions – Please Read Carefully!!

1. Do not turn the page until instructed to do so.
2. Please check that your exam has 7 pages.
3. Please write legibly. You may use either pen or pencil.
4. <u>Use of programmable calculators and cell phones is strictly forbidden</u>.
5. Please feel free to use the margins and the backs of the pages as scratch paper.
6. Read exam questions carefully and do not spend too much time on any one question.
7. You have 45 minutes to complete the exam.
8. There are 30 multiple-choice questions (30 points).
9. If you think that you found a mistake, comment on it. You may receive extra credit.
10. Please check the blackboard periodically. I will post corrections and clarifications there.
11. If you think that you found a mistake, comment on it. You may receive extra credit.
12. <u>Keep your eyes on your exam</u>: If I see a student looking at another's exam, I will assume s/he is copying. I will immediately take away their exam and give them a failing grade.

**Multiple Choice: (1 Point Each - No Penalty for Wrong Answers.)**
Please Select the Best Answer for Each the Following Questions or Statements.

1. In the short run, for a profit-maximizing firm in a perfectly competitive market, it must be true that
   a. Price = Average Total Cost = Marginal Cost
   b. Price = Marginal Cost = Marginal Revenue
   c. Marginal Cost = Average Fixed Cost
   d. Both a and b.

2. In long run equilibrium, for a profit-maximizing firm in a perfectly competitive market, it must be true that
   a. Price = Average Total Cost = Marginal Cost
   b. Price = Marginal Cost = Marginal Revenue
   c. Marginal Cost = Average Fixed Cost
   d. Both a and b.

3. For a firm in a perfectly competitive market, the firm's break-even price is where
   a. Price = Minimum Average Variable Cost
   b. Price = Minimum Average Fixed Cost
   c. Price = Minimum Average Total Cost
   d. Price = Marginal Cost

4. If a perfectly competitive firm is making a loss in the short run, they could minimize their loss if they:
   a. Keep operating if the price of their product is above the average total cost per unit.
   b. Keep operating doors if the price of their product is below the average variable cost per unit.
   c. Shut down if the price of their product is below the average total cost per unit.
   d. Shut down if the price of their product is below the average variable cost per unit.

5. All of the following are characteristics of a perfectly competitive industry, EXCEPT:
   a. There are no barriers to entry.
   b. The demand faced by a single firm is infinitely elastic.
   c. There are many firms, each of which produces an identical good.
   d. Profit is maximized where P = ATC.

6. If firms in a perfectly competitive market are making negative profits in the short run, in the long run, firms will __________ causing market supply to ___________, prices to _______, and profits to _____________.
   a. Exit; shift right, increase, increase.
   b. Exit; shift right, fall, decrease.
   c. Exit; shift left, increase, increase.
   d. Enter; shift left, increase, increase.
   e. Enter; shift right, fall, decrease.

7. The market for squeegees is perfectly competitive. A firm's total cost is given by $TC=27+4Q+3Q^2$, such that $MC=4+6Q$. Suppose in the short run that the equilibrium market price of squeegees is $16.
Find the profit maximizing quantity produced by the firm.
   a. 1
   b. 2
   c. 3
   d. 4

8. What is the long run equilibrium price of squeegees?
   a. $3
   b. $9
   c. $18
   d. $22

9. An unregulated monopoly facing a linear, downward sloping demand curve finds that its marginal cost exceeds its marginal revenue. In order to increase its profit, the firm must:
   a. Raise its price.
   b. Lower its price.
   c. Shut down in the long run.
   d. Charge the same price but increase its output.

10. Suppose that a monopolist and a perfectly competitive firm have identical cost structures. The monopolistic firm would:
    a. Charge a higher price and sell a larger quantity.
    b. Charge a lower price and sell a larger quantity.
    c. Charge a higher price and sell a lower quantity.
    d. Charge a lower price and sell a lower quantity.

11. For a single-price monopolist facing a linear demand curve, marginal revenue is
    a. Negative when demand is elastic and negative when demand is inelastic.
    b. Negative when demand is elastic and positive when demand is inelastic.
    c. Positive when demand is elastic and negative when demand is inelastic.
    d. Positive when demand is elastic and positive when demand is inelastic.

12. The marginal revenue curve for a single price monopolist is steeper than the demand curve because:
    a. A single price monopolist has increasing marginal costs.
    b. Demand is unit elastic.
    c. A single price monopolist must increase the price to sell additional units.
    d. A single price monopolist must decrease the price to sell additional units.

Use the information on the single-price monopoly provided in the table below to answer questions 13-16 below.

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Price | $20 | 19 | 18 | 17 | 16 | 15 | 14 | 13 | 12 | 11 |
| Quantity | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 |
| TR | $200 | 209 | 216 | 221 | 224 | 225 | 224 | 221 | 216 | 209 |
| MR | $---- | 9 | 7 | 5 | 3 | 1 | -1 | -3 | -5 | -7 |
| MC | $3 | 5 | 7 | 9 | 12 | 15 | 18 | 21 | 25 | 29 |

13. What is the monopolist's profit maximizing output?
    a. 15 units
    b. 14 units
    c. 13 units
    d. 12 units

14. If Average Total Cost (ATC) = $16 per unit at the profit maximizing quantity what would be the total profit earned by the monopoly?
    a. $216
    b. $192
    c. $24
    d. $2

15. If this market were more competitive and firms were forced to charge a price equal to the cost of producing the last unit. At what output level would that occur in this market?
    a. 15 units
    b. 14 units
    c. 13 units
    d. 12 units

16. What is the deadweight loss to society of this monopoly?
    a. $12.5
    b. $14.5
    c. $16.5
    d. $18.5

17. A monopolist that can perfectly price discriminate
    a. Sets P=MC.
    b. Produces an efficient quantity.
    c. Captures the entire consumer surplus.
    d. b and c only.

18. If the market price increases to a level where perfectly competitive firms are experiencing an economic profit, then in the long run:
    a. The market supply curve will not shift.
    b. The market supply curve will shift to the right causing the market price to fall.
    c. The market supply curve will shift to the left causing the market price to rise.
    d. Firms will exit the market.

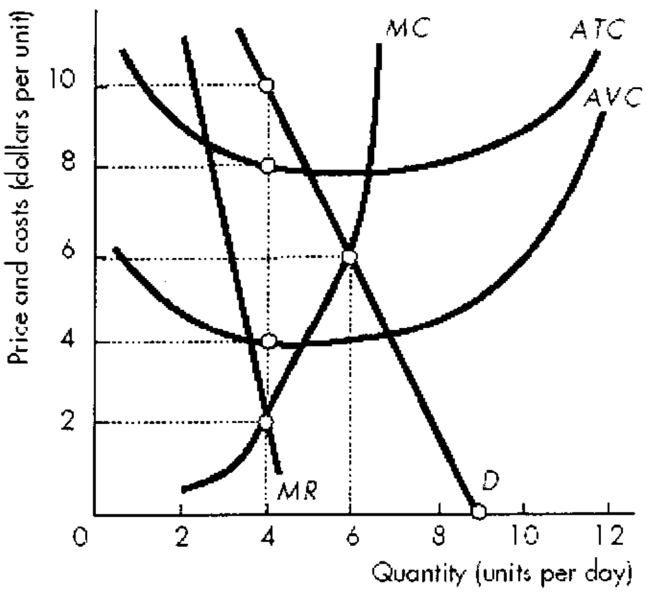
19. A firm's ability to successfully practice price discrimination is greater:
    a. The more difficult it is to identify a customer's willingness to pay.
    b. The more homogeneous (identical; non-differentiated) the product being sold.
    c. The more difficult it is for high price customer to resell the product to the low price customers.
    d. All of the above make it easier to price discriminate.

20. Which of the following would NOT be considered a barrier to entry?
    a. A government granted patent
    b. Low start up costs
    c. Exclusive ownership of a resource
    d. All of the above are barriers to entry

21. The main inefficiency of a monopoly firm is that:
    a. an unfair price is charged to poorer consumers.
    b. the monopolist makes too much profit.
    c. output is restricted below the competitive level.
    d. consumers have no choice with respect to the product's quality.

22. Which of the following would NOT be an example of price discrimination?
    a. A doctor charges for services according to the income of his patients.
    b. Public (i.e. government) universities charge foreign students higher tuition.
    c. An electric power company charges less for electricity used during off-peak hours, when demand is low.
    d. A theater charges children under 12 years-old less for a movie ticket than it charges adults.

23. An economy is allocatively efficient in all of the following cases, EXCEPT:
    a. the marginal cost of all goods is equal.
    b. consumer and producer surplus are maximized.
    c. it is not possible to identify mutually beneficial trades.
    d. price equals marginal cost for all goods.




24. The monopolist illustrated in the figure above has a total revenue of
    a. $8 per day.
    b. $16 per day.
    c. $32 per day.
    d. $36 per day.
    e. $40 per day.

25. The monopolist illustrated in the figure above has a profit of
    a. $8 per day.
    b. $16 per day.
    c. $32 per day.
    d. $36 per day.
    e. $40 per day.

26. The monopolist illustrated in the figure above has a deadweight loss to society of
    a. $8 per day.
    b. $16 per day.
    c. $32 per day.
    d. $36 per day.
    e. $40 per day.

27. The monopolist illustrated above captures part of the consumer surplus equal to
    a. $8 per day.
    b. $16 per day.
    c. $32 per day.
    d. $36 per day.
    e. $40 per day.

28. Which of the following statements does NOT adequately represent the concept of consumer surplus:
    a. The extra value consumers receive from consuming a good over what they pay for it.
    b. What consumers would be willing to pay for the right to consume a good at its current price.
    c. The area below the demand curve and above the market price for a good.
    d. The area below the demand curve and to the left of the equilibrium quantity demanded.

29. A perfectly competitive firm is currently producing 300 units where MC = \$40, AVC = \$30, and ATC = \$35. The current market price for the product is \$40. This firm:
    a. Should increase production.
    b. Should produce, but it should produce fewer than 300 units.
    c. Should shut down.
    d. Should continue producing 300 units.

30. Which of the following is true about firms in a perfectly competitive industry?
    a. Firms earn normal profit in the short run, but can earn economic profit in the long run.
    b. Firm incur losses in the short run, but earn economic profit in the long run.
    c. In the short run, firms can earn economic profit or incur economic losses, but in the long run, they only earn normal profit.
    d. In the short run, firms earn normal profit, but can earn economic profit or incur economic losses in the long run.