

Instructions:

- Do not turn to the next page before you are instructed to do so
- Write your name before you start the Exam
- Exam duration is 60 minutes
- You have 40 multiple choice questions
- Each question has exactly ONE correct answer
- Grades are equally distributed among the different questions
- There is no penalty, answer ALL questions
- If a question is not clear raise your hand and I will come asap to clarify it
- Cheating will be severely punished. DO NOT attempt to cheat
- When you finish the exam raise your hand, a proctor will come take your exam paper and then you will be allowed to leave

Good Luck!

1. Good A and Good B cost \$3 and \$4, respectively. Sarah, spending all of her income, buys 4 units of Good A and 3 units of Good B. The final unit of each good gives her 12 units of utility.
 - (a) Sarah is maximizing her utility.
 - (b) Sarah should buy more of Good A and less of Good B to maximize utility.
 - (c) Sarah should buy less of Good A and more of Good B to maximize utility.
 - (d) Sarah should buy less of both goods to maximize utility.
2. If all prices double and income doubles, the budget constraint will
 - (a) double.
 - (b) move inward.
 - (c) move outward by 50%.
 - (d) not shift position.
3. The wage rate rises. If the quantity of labor supplied falls, the most likely explanation is that the substitution effect
 - (a) is negative and it dominates the income effect.
 - (b) is negative and it is dominated by the income effect.
 - (c) is positive and it dominates the income effect.
 - (d) is positive and it is dominated by the income effect.
4. Jamil has had 4 hamburgers and 2 hot dogs this week and is now indifferent between them. Hamburgers cost \$2 and hot dogs cost \$1. Currently
 - (a) Jamil's marginal utility per unit of hamburgers is twice that of hot dogs.
 - (b) Jamil's total utility of hamburgers equals that of hot dogs.
 - (c) Jamil's total utility of hamburgers is twice that of hot dogs.
 - (d) Jamil's marginal utility per unit of hamburgers equals that of hot dogs.
5. The wage rate can be seen as a measure of the opportunity cost of
 - (a) work.
 - (b) saving.
 - (c) leisure.
 - (d) future consumption.
6. Lynn can buy two goods, Good X and Good Y. Good X is represented on the horizontal axis. Which of the following will cause the budget constraint to increase its slope?
 - (a) An increase in the price of Good X.
 - (b) An equal increase in the price of both goods.
 - (c) An increase in Lynn's income.
 - (d) An increase in the price of Good Y.

Use the following information for the next two questions. Hassan's income is \$100; the price of apples is \$5 per unit; the price of oranges is \$10 per unit. Assume a consumer choice diagram with apples on the vertical axis and oranges on the horizontal axis.

7. If Hassan's income falls to \$75, but the prices of apples and oranges remain unchanged, there will be
 - (a) a parallel shift inwards of the indifference curves.
 - (b) a parallel shift outwards of the budget line.
 - (c) a parallel shift inwards of the budget line.
 - (d) a decrease in Hassan's consumption of both apples and oranges.
8. If the price of apples increases to \$10 per unit,
 - (a) the budget line will rotate clockwise around the intersection of the budget line and the vertical axis.
 - (b) the budget line will rotate counterclockwise around the intersection of the budget line and the horizontal axis.
 - (c) Hassan will be on the same indifference curve, but fewer apples will be consumed.
 - (d) Hassan's consumption of apples will decrease.
9. Four workers produce 160 units of output and five workers produce 180. The marginal product of the fifth worker is
 - (a) 32 units of output.
 - (b) 4 units of output.
 - (c) 20 units of output.
 - (d) 36 units of output.
10. The return on investment that is just sufficient to satisfy the owners of a business is called
 - (a) normal profit.
 - (b) marginal profit.
 - (c) economic profit.
 - (d) excess profit.
11. Omar increases the amount of capital his workers use. The average product of labor will and the marginal product of labor will .
 - (a) increase; increase
 - (b) decrease; decrease
 - (c) increase; decrease
 - (d) decrease; increase

Use the following table to answer the next two questions.

Numbers of Workers	Marginal Product
1	19
2	26
3	24
4	20
5	18

12. Total product, if four workers are employed, is
- (a) 20 units of output.
 - (b) 69 units of output.
 - (c) 89 units of output.
 - (d) 107 units of output.
13. Average product, if three workers are employed, is
- (a) 24 units of output.
 - (b) 23 units of output.
 - (c) 26 units of output.
 - (d) 8 units of output.
14. In the short run which of the following is incorrect?
- (a) Existing firms cannot leave the industry.
 - (b) New firms cannot enter the industry.
 - (c) The firms are operating under a fixed scale of production.
 - (d) Firms have no variable factors of production.
15. When marginal product is zero, total product is _____ and average product is _____.
- (a) maximized; maximized
 - (b) maximized; decreasing
 - (c) decreasing; maximized
 - (d) decreasing; decreasing
16. The law of diminishing returns
- (a) applies in the short run but not in the long run.
 - (b) requires that all factors of production must diminish in equal proportions.
 - (c) requires that all factors of production must diminish in unequal proportions.
 - (d) states that marginal product must always be less than average product.

17. The income tax is “progressive”. This means that
- (a) progressively more persons are taxed each year.
 - (b) those with higher income pay a higher percentage of it in taxes.
 - (c) if a person earning \$10,000 pays \$3,000 in taxes, a person earning \$20,000 would pay twice as much in taxes.
 - (d) the more you earn, the more you pay.
18. In successive decades, Country A records a Gini coefficient of 0.3 (1980s), 0.7 (1990s), and 1.0 (2000s). Population size has remained stable throughout the time period. We can state that
- (a) Country A’s income distribution has become more equal as time has passed.
 - (b) Country A had fewer poor people in 2000s than in the 1980s.
 - (c) the top 20% of income was earned by a smaller number of families in the 2000s than in the 1980s.
 - (d) the gap between Country A’s Lorenz curve and the 45° line has decreased as time has passed.
19. According to Marx, the major source of inequality in the distribution of income is
- (a) property income.
 - (b) labor income.
 - (c) human capitalism.
 - (d) social contracts.
20. Each of the following is an assumption in Rawl’s theory except that
- (a) individuals are risk averse.
 - (b) individuals may become rich.
 - (c) individuals may become poor.
 - (d) individuals may opt out of the social contract.
21. The TVC of 11 units is \$100. The TVC of 12 units is \$120. The MC of the twelfth unit is
- (a) \$60.
 - (b) \$10.
 - (c) \$120.
 - (d) \$20.
22. The short-run supply curve for a perfectly competitive firm is upward sloping because, as production increases,
- (a) the firm must pay higher hourly wages to its workers.
 - (b) total fixed costs increase.
 - (c) the firm is able to assign its workforce to specialized tasks.
 - (d) the marginal productivity of additional workers decreases.

23. In the short run, which of the following is possible?
- (a) AFC may be greater than ATC.
 - (b) MC may intersect ATC when ATC is decreasing.
 - (c) AFC may be greater than AVC.
 - (d) TFC falls as output rises.
24. The firm is at the output level where marginal cost intersects average variable cost. We can infer that
- (a) average variable cost is rising.
 - (b) average variable cost is falling.
 - (c) average total cost is falling.
 - (d) average total cost is rising.
25. Opel cuts usage of all inputs by 50%. Production falls by more than 50%. Opel is experiencing
- (a) external economies of scale.
 - (b) external diseconomies of scale.
 - (c) increasing returns to scale.
 - (d) decreasing returns to scale.
26. In the short run, a perfectly competitive firm incurring losses should still produce if it can cover its
- (a) average costs.
 - (b) variable costs.
 - (c) fixed costs.
 - (d) economic costs.

Use the following information for the next four questions. Ipad sell for \$400 a piece. Apple can produce one Ipad for a total cost of \$300, two Ipads for a total cost of \$600, three for \$1000, four for \$1500, and five for \$2100. Total fixed cost is \$100.

27. The marginal revenue of the fourth unit is
- (a) \$200
 - (b) \$300
 - (c) \$400
 - (d) \$500
28. The marginal cost of the second unit is
- (a) \$300
 - (b) \$400
 - (c) \$500
 - (d) \$600

29. To maximize profits, Apple will produce

- (a) two units,
- (b) three units.
- (c) four units.
- (d) five units.

30. The average variable cost of five units is

- (a) \$ 380
- (b) \$ 400
- (c) \$ 420
- (d) \$440

Use the following information for the next two questions. Total fixed cost is \$20.

Output	ATC
2	\$20
3	\$15
4	\$14
5	\$ 16

31. Which of the following statement is false?

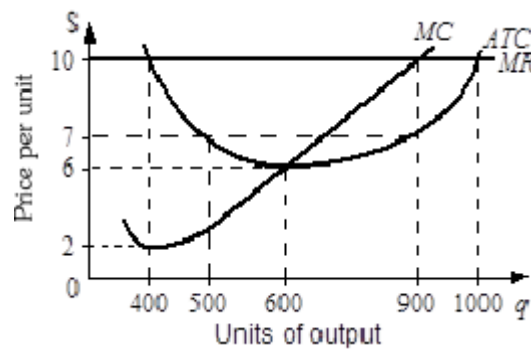
- (a) The total cost of producing four units is \$56.
- (b) The marginal cost of the fifth unit is \$2.
- (c) The average variable cost of the fifth unit is \$12.
- (d) The marginal cost of the third unit is \$5.

32. If the price of this product was \$10, units should be produced. profit would be made.

- (a) three; \$ 15
- (b) three; -\$15
- (c) four; \$16
- (d) four; -\$16

33. A perfectly competitive firm sells its output for \$40 per unit. Its current output is 1,000 units. At that level, its marginal cost is \$50 and increasing, average variable cost is \$35, and average total cost is \$60. To maximize short-run profits, the firm should

- (a) increase production.
- (b) increase price.
- (c) decrease production.
- (d) shut down.



Use the diagram above, which refer to Halloum production, to answer the next six questions.

34. The profit maximizing output level is
- 400
 - 600
 - 900
 - 1000
35. If the firm produces 600 Halloum, its profit will be
- zero.
 - \$2,400.
 - \$3,600.
 - \$6,300.
36. If the firm produces 400 Halloum, its total cost will be
- \$10.
 - \$400.
 - \$800.
 - \$4,000.
37. if the firm is producing 600 Halloum it should _____ to maximize profits.
- increase output to 900
 - increase output to 1,000
 - maintain its current output level
 - increase price to \$20 and increase output to 1,000
38. If the firm produces 900 Halloum, total revenue is
- \$2,700.
 - \$5,600.
 - \$6,300.
 - \$9,000.

39. If the firm expands production from 600 halloum to 900 Halloum, profit will
- (a) increase from zero to \$2,700.
 - (b) decrease from \$2,400 to zero.
 - (c) decrease from \$2,400 to \$1,800.
 - (d) increase fromm \$2,400 to \$2,700.
40. When $P < LRAC$, we would expect and firms in this industry.
- (a) investment; fewer
 - (b) investment; more
 - (c) disinvestment; fewer
 - (d) disinvestment; more