



**Pearson International Edition**

Principles of  
**Microeconomics**  
NINTH EDITION

**TEST BANK**

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**Case  
Fair  
Oster**

***Principles of Microeconomics, 9e - Test Item File 2 (Case/Fair/Oster)***  
**Chapter 1 The Scope and Method of Economics**

**1.1 Why Study Economics?**

**1 Multiple Choice**

1) The reasons to study economics include which of the following?

- A) to be an informed voter
- B) to understand society and global affairs
- C) to learn a way of thinking
- D) all of the above

Answer: D

Diff: 1

Topic: Why Study Economics?

Skill: Fact

2) Marginalism is

- A) the best alternative that we forego when making a decision.
- B) the study of how societies choose to use scarce resources.
- C) a market situation in which profit opportunities are eliminated almost instantaneously.
- D) the process of analyzing the additional costs or benefits arising from a decision.

Answer: D

Diff: 1

Topic: Why Study Economics?

Skill: Definition

3) Economics is best defined as the study of

- A) financial decision-making.
- B) how consumers make purchasing decisions.
- C) choices made by people faced with scarcity.
- D) inflation, unemployment, and economic growth.

Answer: C

Diff: 2

Topic: Why Study Economics?

Skill: Definition

4) The Industrial Revolution refers to the rise of the modern factory system in \_\_\_\_\_ during the late eighteenth and early nineteenth centuries.

- A) the United States
- B) England
- C) France
- D) Germany

Answer: B

Diff: 1

Topic: Why Study Economics?

Skill: Fact

5) Which of the following statements is correct?

- A) Economics is a natural science.
- B) In large measure, economics is the study of how people make choices.
- C) If poverty was eliminated there would be no reason to study economics.
- D) Economic analysis can be used to explain how societies, but not individuals, make decisions.

Answer: B

Diff: 1

Topic: Why Study Economics?

Skill: Fact

6) Economics is the study of

- A) how to invest in the stock market.
- B) how society uses limited resources.
- C) the role of money in markets.
- D) how government officials decide which goods and services are produced.

Answer: B

Diff: 2

Topic: Why Study Economics?

Skill: Definition

7) Costs that cannot be avoided, because they have already been incurred are known as

- A) differential costs.
- B) marginal costs.
- C) opportunity costs.
- D) sunk costs.

Answer: D

Diff: 2

Topic: Why Study Economics?

Skill: Definition

8) Suppose that two weeks ago you purchased a ticket to the symphony for \$40. Last week someone invited you to go camping on the same night as the symphony concert. You would much rather go camping than go to the symphony. You have tried unsuccessfully to sell the symphony concert ticket. Which of the following statements regarding this situation is correct?

- A) The \$40 symphony ticket should be irrelevant in your decision making, because it represents the marginal cost of going camping.
- B) The \$40 you paid for the symphony ticket should be irrelevant in your decision making, because it is a sunk cost.
- C) The \$40 you paid for the symphony ticket is relevant to the decision, as this represents the opportunity cost of going camping.
- D) You should base your decision on whether or not going camping will provide you with more than \$40 in satisfaction.

Answer: B

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 9) You have decided that you want to attend a renaissance fair as King Henry VIII. You estimate that it will cost \$80 to assemble your costume. After spending \$80 on the costume, you realize that the additional pieces you need will cost you \$20 more. The marginal cost of completing the costume is

A) \$20.  
B) \$60.  
C) \$80.  
D) \$100.

Answer: A

Diff: 2

Topic: Why Study Economics?

Skill: Analytic

AACSB: Analytic Skills

- 10) The concept of opportunity cost can be applied to the analysis of \_\_\_\_\_ decision-making processes.

A) only economy-wide  
B) only global  
C) only-small-scale  
D) any

Answer: D

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 11) That which we forgo, or give up, when we make a choice or a decision is known as

A) equity.  
B) causation.  
C) correlation.  
D) opportunity cost.

Answer: D

Diff: 2

Topic: Why Study Economics?

Skill: Definition

- 12) Scarce resources give rise to the concept of

A) efficient markets.  
B) opportunity costs.  
C) laissez-faire.  
D) positive economics.

Answer: B

Diff: 1

Topic: Why Study Economics?

Skill: Fact



- 13) Which of the following is an opportunity cost of attending college?
- A) the cost of your apartment or dorm
  - B) the income you could have earned if you didn't attend college
  - C) the cost of the food that you consume while you are attending college
  - D) the education you gain from attending college.

Answer: B

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 14) If your tuition is \$2,000 this semester, your books cost \$400, you can only work 10 rather than 40 hours per week during the 15 weeks you are taking classes and you make \$12 per hour, and your room and board is \$4,000 this semester, then your opportunity cost of attending college this semester is
- A) \$2,400.
  - B) \$2,760.
  - C) \$7,800.
  - D) \$11,800.

Answer: C

Diff: 3

Topic: Why Study Economics?

Skill: Analytic

AACSB: Analytic Skills

- 15) If your tuition is \$20,000 this semester, your books cost \$2,000, you can only work 10 rather than 40 hours per week during the 15 weeks you are taking classes and you make \$15 per hour, and your room and board is \$8,000 this semester, then your opportunity cost of attending college this semester is
- A) \$22,000.
  - B) \$22,150.
  - C) \$28,750.
  - D) \$36,750.

Answer: C

Diff: 3

Topic: Why Study Economics?

Skill: Analytic

AACSB: Analytic Skills

- 16) If you own a condo and you decide to lease it to your cousin
- A) there is no opportunity cost of leasing the condo because you own it.
  - B) there is an opportunity cost of leasing the condo because you could have chosen to live in it.
  - C) there is no opportunity cost of leasing the condo because you collect rent from your cousin.
  - D) the only cost relevant to this decision is the price you paid for the condo.

Answer: B

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 17) You own *The Wedding Crasher* on DVD. The opportunity cost of watching this DVD for the fourth time
- A) is zero, since you own it.
  - B) is one-fourth the cost of the DVD, as this is the fourth time you have watched it.
  - C) is the value of the alternative use of the time you spend watching the DVD.
  - D) must be the same as the opportunity cost of watching it the first time.

Answer: C

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 18) Opportunity cost is
- A) what we give up to get something else.
  - B) marginal cost divided by sunk cost.
  - C) the same as real cost.
  - D) all of the above

Answer: A

Diff: 1

Topic: Why Study Economics?

Skill: Definition

- 19) Sunk costs
- A) are costs which have been incurred.
  - B) are costs which cannot be avoided but have yet to be incurred.
  - C) the sum of all marginal costs.
  - D) the sum of all opportunity costs.

Answer: A

Diff: 1

Topic: Why Study Economics?

Skill: Definition

- 20) If you can download 10 ring tones for your cell phone for \$10 or you could download 11 ring tones for your cell phone for \$10.50, then the marginal cost of the eleventh ring tone is
- A) \$0.50.
  - B) \$10.00.
  - C) \$10.50.
  - D) \$20.50.

Answer: A

Diff: 2

Topic: Why Study Economics?

Skill: Analytic

AACSB: Analytic Skills

- 21) If you eat at a Las Vegas casino that charges \$12 for its all you can eat buffet, then the marginal cost of your third trip to the buffet is
- A) zero.
  - B) \$4.
  - C) \$12.
  - D) \$36.

Answer: A

Diff: 2

Topic: Why Study Economics?

Skill: Analytic

AACSB: Analytic Skills

- 22) An efficient market is a market
- A) that deals in unlimited resources.
  - B) in which long-term profits are guaranteed.
  - C) in which profit opportunities are eliminated almost instantaneously.
  - D) in which there are no opportunity costs.

Answer: C

Diff: 2

Topic: Why Study Economics?

Skill: Definition

- 23) If information is more costly and less easily available, then usually this
- A) makes markets more efficient.
  - B) makes markets less efficient.
  - C) decreases profit opportunities.
  - D) decreases the opportunity cost of acquiring more information.

Answer: B

Diff: 3

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 24) The common way of expressing the efficient market concept is
- A) "the only true market is a profitable market."
  - B) "there's no such thing as a free lunch."
  - C) "only without government interference can a market survive."
  - D) "once an efficient market, always an efficient market."

Answer: B

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

- 25) Related to the *Economics in Practice* on p. 6: An example of a sunk cost to Apple in its production of the iPod is

- A) the \$73 cost of the Toshiba hard drive.
- B) the cost of conception and design of the iPod.
- C) the \$80 value-added received by Apple.
- D) the cost of all of the 451 components needed to produce the iPod.

Answer: B

Diff: 2

Topic: Why Study Economics?: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

- 26) Related to the *Economics in Practice* on p. 6: The opportunity cost to Apple of having its 30-gigabyte video iPod assembled in China is

- A) the low wages paid to Chinese workers.
- B) the \$4 per unit cost of assembly in China.
- C) having the iPod assembled in the next best available location.
- D) the value-added received by Apple.

Answer: C

Diff: 2

Topic: Why Study Economics?: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

## 2 True/False

- 1) Resources are limited in both wealthy and poor societies.

Answer: TRUE

Diff: 1

Topic: Why Study Economics?

Skill: Fact

- 2) The value of the best alternative foregone is the sunk cost of making a decision.

Answer: FALSE

Diff: 1

Topic: Why Study Economics?

Skill: Fact

3) Opportunity costs arise because resources are limited.

Answer: TRUE

Diff: 1

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

4) Sunk costs affect marginal decision making.

Answer: FALSE

Diff: 2

Topic: Why Study Economics?

Skill: Conceptual

AACSB: Reflective Thinking

5) Sunk costs are those that cannot be recaptured.

Answer: TRUE

Diff: 1

Topic: Why Study Economics?

Skill: Fact

## 1.2 The Scope of Economics

### 1 Multiple Choice

1) Microeconomics is best described as the study of

A) the choices made by individual households, firms, and governments.

B) inflation, unemployment, gross national product, and the nation's economy as a whole.

C) how markets interact in the aggregate economy.

D) marginal changes in the economy.

Answer: A

Diff: 2

Topic: The Scope of Economics

Skill: Definition

2) Macroeconomics is best described as the study of

A) very large issues.

B) the choices made by individual households, firms, and governments.

C) the nation's economy as a whole.

D) the relationship between inflation and wage inequality.

Answer: C

Diff: 2

Topic: The Scope of Economics

Skill: Definition

- 3) Which of the following is a microeconomics question?
- A) Is it sensible for a government to subsidize tobacco production?
  - B) Why do some countries grow faster than others?
  - C) Should Congress and the president take action to reduce global warming?
  - D) Should the government attempt to influence the interest rate to lower inflation?
- Answer: A  
Diff: 2  
Topic: The Scope of Economics  
Skill: Conceptual  
AACSB: Reflective Thinking
- 4) Which of the following is a macroeconomics question?
- A) Should we have a constitutional amendment to balance the federal budget?
  - B) Why does a firm decide to enter a particular market?
  - C) Should the government prevent the merger of two large firms?
  - D) Should the government put a tax on alcohol in an attempt to reduce highway fatalities?
- Answer: A  
Diff: 1  
Topic: The Scope of Economics  
Skill: Conceptual  
AACSB: Reflective Thinking
- 5) We can use macroeconomic analysis to
- A) learn how to balance a checkbook.
  - B) study the choices made by households.
  - C) understand marginal changes in the macroeconomy.
  - D) understand why economies grow.
- Answer: D  
Diff: 1  
Topic: The Scope of Economics  
Skill: Fact

## 2 True/False

- 1) The rate of unemployment is a topic of microeconomics.
- Answer: FALSE  
Diff: 1  
Topic: The Scope of Economics  
Skill: Conceptual  
AACSB: Reflective Thinking
- 2) The rate of inflation is a topic of macroeconomics.
- Answer: TRUE  
Diff: 2  
Topic: The Scope of Economics  
Skill: Conceptual  
AACSB: Reflective Thinking

## 1.3 The Method of Economics

### 1 Multiple Choice

- 1) Which of the following is an example of a normative question?
- A) How will an increase in the price of diesel fuel affect truck drivers?
  - B) What fraction of an income-tax rebate check will be spent on consumer goods?
  - C) Should the government provide free prescription drugs to lower-income citizens?
  - D) How will an increase in the minimum wage affect migrant workers?

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 2) The compilation of data that describe phenomena and facts is referred to as
- A) an economic model.
  - B) Marxist ideology.
  - C) a normative statement.
  - D) descriptive economics.

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Definition

- 3) The amount of exercise that one gets is an important factor in the determination of his general state of health. This is best described as
- A) a positive statement.
  - B) Marxist ideology.
  - C) a normative statement.
  - D) descriptive economics.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 4) Opportunity cost is
- A) the additional cost incurred from the consumption of one more unit of output.
  - B) the cost involved when choosing between alternatives.
  - C) the cost of production which cannot be recaptured.
  - D) the total cost incurred from the consumption of additional output.

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Definition

5) An approach to economics that applies statistical techniques and data to economic problems is called

- A) Ockham's razor.
- B) laissez-faire economics.
- C) positive economics.
- D) normative economics.

Answer: C

Diff: 1

Topic: The Method of Economics

Skill: Fact

6) Normative economics

- A) is the focus of most modern economic reasoning.
- B) answers the question "What ought to be?"
- C) predicts the consequences of alternative actions.
- D) answers the question "What is?"

Answer: B

Diff: 1

Topic: The Method of Economics

Skill: Fact

7) Which of the following is a question answered with normative economic reasoning?

- A) If the college offers free parking for students, will more students drive to campus?
- B) If the college provided more financial aid assistance, would more students benefit?
- C) If the college increased tuition, would class size decline?
- D) Should the college cut tuition to stimulate enrollment?

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

8) Which of the following is a question answered with positive economic analysis?

- A) Should the college offers free parking for students?
- B) Should the college provide more financial aid assistance?
- C) If the college increased tuition, will class size decline?
- D) Should the college cut tuition to stimulate enrollment?

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking



- 9) The reoccurrence of contagious diseases should be significantly lower in a technically advanced nation such as the United States. This statement is best described as
- A) a normative statement.
  - B) a positive statement.
  - C) a descriptive economics statement.
  - D) an implication of an efficient market.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 10) There is great concern over the fact that global warming is causing permanent damage to the global environment. A study of the costs and benefits of purchasing carbon offsets to combat global warming is an example of
- A) labor economics.
  - B) normative economics.
  - C) positive economics.
  - D) laissez-faire economics.

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 11) The compilation of data that describe phenomena and facts refers to
- A) descriptive economics.
  - B) normative economics.
  - C) laissez-faire economics.
  - D) collective economics.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Definition

- 12) An economist collecting data on the employment benefits and salaries in the chemical engineering industry is an example of
- A) descriptive economics.
  - B) the fallacy of composition.
  - C) the post hoc fallacy.
  - D) ceteris paribus.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

*Refer to Scenario 1.1 below to answer the questions that follow.*

SCENARIO 1.1: A scientist wants to understand the relationship between automobile emissions and the level of global warming. The scientist collects data on the volume of automobile emissions and the levels of global warming over time. The scientist concludes that a 1% increase in automobile emissions causes a 0.0003% increase in average global temperatures. From this information he concludes that the automobile emissions are harmful to the environment and should be reduced to stop the increase in global temperatures.

- 13) Refer to Scenario 1.1. The statement that a 1% increase in the automobile emissions causes a 0.0003% increase in average global temperatures is an example of

- A) positive economics.
- B) descriptive economics.
- C) normative economics.
- D) Marxist economics.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 14) Refer to Scenario 1.1. The statement, "automobile emissions are harmful to the environment and should be reduced to stop the increase in global temperatures," is an example of

- A) positive economics.
- B) descriptive economics.
- C) normative economics.
- D) Marxist economics.

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 15) Refer to Scenario 1.1. The process of collecting data on automobile emissions and global warming levels is an example of

- A) law and economics.
- B) economic history.
- C) econometrics.
- D) descriptive economics.

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

16) Refer to Scenario 1.1. The statement that an increase in automobile emissions causes an increase in global warming is an example of

- A) an economic theory.
- B) descriptive reasoning.
- C) deductive reasoning.
- D) normative economics.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

17) Refer to Scenario 1.1. A graph of the volume of automobile emissions on one axis and the level of average global temperatures on the other axis is an example of

- A) an economic model.
- B) an economic theory.
- C) a variable theory.
- D) inductive reasoning.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

18) By invoking the assumption of *ceteris paribus*, economists

- A) consider the impact of all relevant factors.
- B) hold all variables constant when analyzing a model.
- C) isolate the impact of one single variable while holding all other variables constant.
- D) exclude irrelevant detail when analyzing a model.

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

19) Ockham's razor is the principle that states

- A) supply creates its own demand.
- B) we must forego something when making a decision.
- C) costs which have been incurred cannot be avoided.
- D) irrelevant detail should not be included in a model.

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Definition

20) The phrase *ceteris paribus* means

- A) "scarcity is a fact of life."
- B) "all else equal."
- C) "there is no such thing as a free lunch."
- D) "everything affects everything else."

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Definition

21) The Latin phrase *ceteris paribus* means that when a relationship between two variables is being studied

- A) both are treated as unpredictable.
- B) neither of those two variables is allowed to change.
- C) all other variables are held fixed.
- D) we recognize that some factors are unknown.

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Definition

22) Isabel noted that whenever she wore her green contact lenses, the Chicago White Sox would win that evening. Based on this observation, she developed the "green-eyes-for-White-Sox" theory of winning. It is most likely true that Isabel

- A) showed good reasoning for the reason the White Sox would win.
- B) committed the *ceteris paribus* error.
- C) committed the fallacy of composition.
- D) was too quick to conclude that correlation implies causation.

Answer: D

Diff: 3

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

23) Whenever a former governor is elected president, the unemployment rate decreases; whenever a former congressman is elected president, the inflation rate increases. This statement is an example of

- A) fallacy of composition.
- B) *post hoc, ergo propter hoc* fallacy.
- C) *ceteris paribus* fallacy.
- D) fallacy of inductive reasoning.

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

24) The erroneous belief that what is true for a part is necessarily true for the whole is referred to as the

- A) fallacy of composition.
- B) *post hoc, ergo promppter hoc* fallacy.
- C) *ceteris paribus* fallacy.
- D) fallacy of inductive reasoning.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Definition

25) The unemployment rate was falling during all of the years that I was a student, but as soon as I graduated, the unemployment rate started to rise. Therefore, the job market was waiting until I started looking for employment to start to go bad. This statement is an example of

- A) fallacy of composition.
- B) *post hoc, ergo promppter hoc* fallacy.
- C) *ceteris paribus* fallacy.
- D) fallacy of inductive reasoning.

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

26) Research conducted in border states suggests that speaking a second language increases the prospects for employment. Therefore, we should require all citizens to speak a second language. This statement is an example of

- A) fallacy of composition.
- B) *ceteris paribus* fallacy.
- C) fallacy of inductive reasoning.
- D) *post hoc, ergo promppter hoc* fallacy.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

27) Salary caps are imposed when league officials believe some football team owners are taking advantage of their deep pockets and buying more quality players than the other owners can afford to buy. Which of the following criteria are they using to guide their actions?

- A) growth
- B) stability
- C) efficiency
- D) equity

Answer: D

Diff: 3

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

28) A government policy that tries to minimize inflation and unemployment can best be described as trying to achieve economic

- A) growth.
- B) stability.
- C) profitability.
- D) equity.

Answer: B

Diff: 3

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

29) The concept of equity would explain the redistribution from the rich to the poor which is achieved from a tax system that requires taxes to

- A) fall when income rises.
- B) rise when income rises.
- C) remain stable when income rises.
- D) be unrelated to income.

Answer: B

Diff: 3

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

30) You know that the school parking lot gets very congested about 8:30 a.m. To avoid this congestion, you start arriving at school at 8:00 a.m. However many other students make the same decision, and now the parking lot becomes very congested at 8:00 a.m. This is an example of the

- A) fallacy of composition.
- B) *ceteris paribus* fallacy.
- C) fallacy of division.
- D) *post hoc, ergo prompter hoc* fallacy.

Answer: A

Diff: 3

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 31) You always have math problems to work in class whenever you forget to bring your calculator to school. Concluding that forgetting your calculator causes your professor to assign math problems is an example of the
- A) fallacy of composition.
  - B) fallacy of inductive reasoning.
  - C) *ceteris paribus* conditions.
  - D) *post hoc, ergo prompter hoc* fallacy.

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 32) At a NASCAR race, you stand up to see better. Everyone else stands up, as well. This is an example of
- A) the fallacy of composition.
  - B) the *post hoc, ergo prompter hoc* fallacy.
  - C) *ceteris paribus*.
  - D) Ockham's razor.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

- 33) You have observed that every time you get a new tattoo the day before you take an exam you get an A. You therefore conclude that to get an A on an exam, all you have to do is get a new tattoo the day before. You have committed the
- A) fallacy of division.
  - B) fallacy of inductive reasoning.
  - C) *post hoc, ergo prompter hoc* fallacy.
  - D) fallacy of composition.

Answer: C

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

34) If you observe that Kelly Clarkson won American Idol 3 years before Carrie Underwood won, and you conclude that Kelly Clarkson winning caused Carrie Underwood to win 3 years later, you would be guilty of an error called the

- A) fallacy of inductive reasoning.
- B) fallacy of *ceteris paribus*.
- C) fallacy of composition.
- D) *post hoc, ergo prompter hoc* fallacy.

Answer: D

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

35) Two variables are said to be correlated if

- A) one variable changes when the other variable changes.
- B) the first variable changes when the second variable does not change.
- C) the first variable does not change when the second variable changes.
- D) the variables share no relation with each other.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Definition

36) The belief that what is true for a part is necessarily true for the whole describes the

- A) fallacy of composition.
- B) *post hoc, ergo prompter hoc* fallacy.
- C) fallacy of division.
- D) fallacy of inductive reasoning.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Definition

37) Empirical economics refers to the

- A) exclusion of irrelevant data when analyzing a model.
- B) collection and use of data to test economic theories.
- C) model of economics used prior to the Industrial Revolution.
- D) belief that what is true for a part is necessarily true for the whole.

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Definition



38) A change in economic output is potentially efficient if the value of the resulting gains \_\_\_\_\_ the value of the resulting losses.

- A) exceeds
- B) is less than
- C) is equal to
- D) is unrelated to

Answer: A

Diff: 3

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

39) An efficient economy is an economy that produces what \_\_\_\_\_ demand and does so at the \_\_\_\_\_ possible cost.

- A) consumers; highest
- B) consumers; least
- C) the government; highest
- D) the government; least

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Definition

40) An efficient market is characterized by the fact that profit opportunities are

- A) guaranteed to everyone.
- B) eliminated almost instantaneously.
- C) only provided to government-subsidized producers.
- D) available only to the most efficient producers.

Answer: B

Diff: 1

Topic: The Method of Economics

Skill: Fact

41) The four criteria that are frequently used in judging the outcome of economic policy are efficiency, stability, economic growth, and

- A) equity.
- B) equality.
- C) profitability.
- D) resolution.

Answer: A

Diff: 1

Topic: The Method of Economics

Skill: Fact

42) You have noticed that there is an increase in the number of homeless people in your city and at the same time you observe that there are a number of vacant apartments. You believe that if landlords were required to rent their apartments for less than they are currently charging, the government could reduce the number of homeless people. This policy recommendation would be motivated by concerns over

- A) economic growth.
- B) stability.
- C) profitability.
- D) equity.

Answer: D

Diff: 3

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

43) Many economists argue that items such as food and clothing should be exempt from sales tax because low-income people spend a greater percentage of their income on these goods than do high-income individuals. This argument is motivated by concerns over

- A) economic stability.
- B) economic growth.
- C) equity.
- D) efficiency.

Answer: C

Diff: 3

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

44) The statement "people should pollute as little as possible" is an example of a

- A) positive statement.
- B) normative statement.
- C) factual statement.
- D) non-judgmental statement.

Answer: B

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

45) The statement "the unemployment rate is 5.1%" is an example of a

- A) positive statement.
- B) value judgement.
- C) normative statement.
- D) non-verifiable statement.

Answer: A

Diff: 2

Topic: The Method of Economics

Skill: Conceptual

AACSB: Reflective Thinking

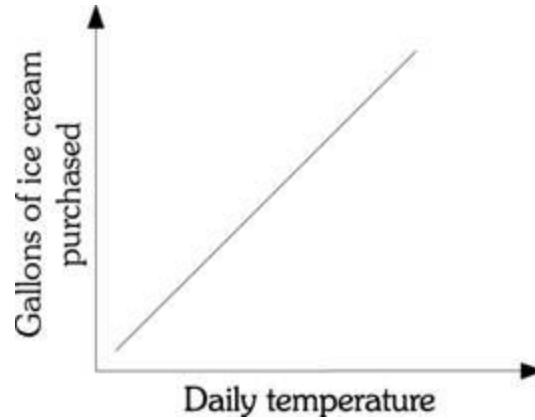
## 2 True/False

- 1) Positive economics questions "What ought to be?" Normative economics predicts the consequences of alternative actions, answering the questions "What is?" or "What will be?"  
Answer: FALSE  
Diff: 2  
Topic: The Method of Economics  
Skill: Definition
- 2) Normative economics questions "What ought to be?" Positive economics predicts the consequences of alternative actions, answering the questions "What is?" or "What will be?"  
Answer: TRUE  
Diff: 2  
Topic: The Method of Economics  
Skill: Definition
- 3) An efficient economy is one that produces what the government demands and does so at the least possible cost.  
Answer: FALSE  
Diff: 2  
Topic: The Method of Economics  
Skill: Definition
- 4) "Post hoc, ergo prompter hoc" literally translated means, "all else equal."  
Answer: FALSE  
Diff: 2  
Topic: The Method of Economics  
Skill: Definition
- 5) Normative economics seeks to understand behavior, but not make judgments.  
Answer: FALSE  
Diff: 2  
Topic: The Method of Economics  
Skill: Conceptual  
AACSB: Reflective Thinking
- 6) Stability implies a steady rate of economic growth regardless of the inflation rate.  
Answer: FALSE  
Diff: 2  
Topic: The Method of Economics  
Skill: Conceptual  
AACSB: Reflective Thinking
- 7) The compilation of data to describe phenomena and facts is known as empirical economics.  
Answer: FALSE  
Diff: 2  
Topic: The Method of Economics  
Skill: Definition

## 1.4 Appendix: How to Read and Understand Graphs

### 1 Multiple Choice

*Refer to the information provided in Figure 1.1 below to answer the questions that follow.*



**Figure 1.1**

- 1) Refer to Figure 1.1. The relationship between the daily temperature and the number of gallons of ice cream purchased demonstrates
- A) an infinite slope.
  - B) a negative slope.
  - C) a positive slope.
  - D) a zero slope.

Answer: C

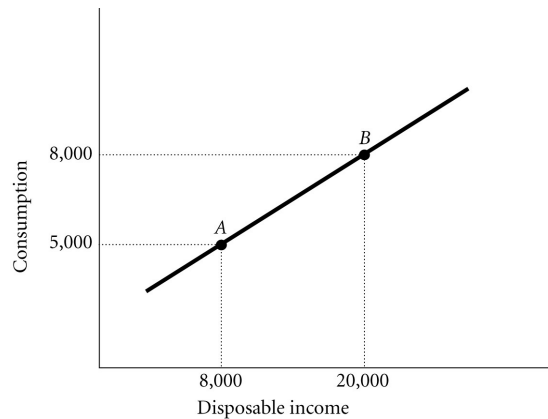
Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in Figure 1.2 below to answer the questions that follow.



**Figure 1.2**

2) Refer to Figure 1.2. The slope of the line between Points A and B is

- A) positive and increasing.
- B) positive and constant.
- C) negative and decreasing.
- D) negative and constant.

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

3) Refer to Figure 1.2. If the slope of a straight line is -2, and if X (the variable on the horizontal axis) decreases by 8, then Y (the variable on the vertical axis) will

- A) increase by 4.
- B) decrease by 4.
- C) increase by 16.
- D) decrease by 16.

Answer: C

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

- 4) Refer to Figure 1.2. The slope of the line between Points *A* and *B* is
- A) 0.25.
  - B) 4.
  - C) -0.25.
  - D) -4.

Answer: A

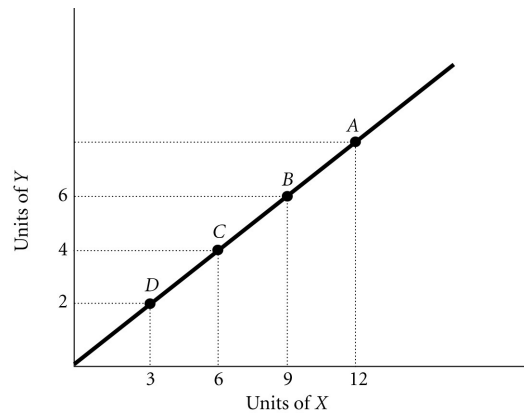
Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

*Refer to the information provided in Figure 1.3 below to answer the questions that follow.*



**Figure 1.3**

- 5) Refer to Figure 1.3. The slope of the line is
- A) negative.
  - B) increasing at a decreasing rate.
  - C) decreasing at an increasing rate.
  - D) positive

Answer: D

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

- 6) Refer to Figure 1.3. The slope of the line between Points *D* and *B* is
- A) 1.5.
  - B) -0.67.
  - C) -1.5.
  - D) 0.67.

Answer: D

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

7) Refer to Figure 1.3. The slope of the line between Points *A* and *B* is

- A) 1.5.
- B) -0.67.
- C) -1.5.
- D) 0.67.

Answer: D

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

8) Refer to Figure 1.3. If a 45 degree line were also graphed, it would \_\_\_\_\_ the line shown on the graph.

- A) lie above
- B) lie below
- C) cross
- D) indeterminant from this information

Answer: A

Diff: 3

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

9) Refer to Figure 1.3. At Point *C*, what is the value of *Y*?

- A) 2
- B) 4
- C) 6
- D) indeterminate from this information

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

10) Refer to Figure 1.3. At Point *A* the slope of the line is 0.67, so at Point *C* the slope would be

- A) greater than 0.67.
- B) less than 0.67.
- C) equal to 0.67.
- D) indeterminate from this information.

Answer: C

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in Figure 1.4 below to answer the questions that follow.

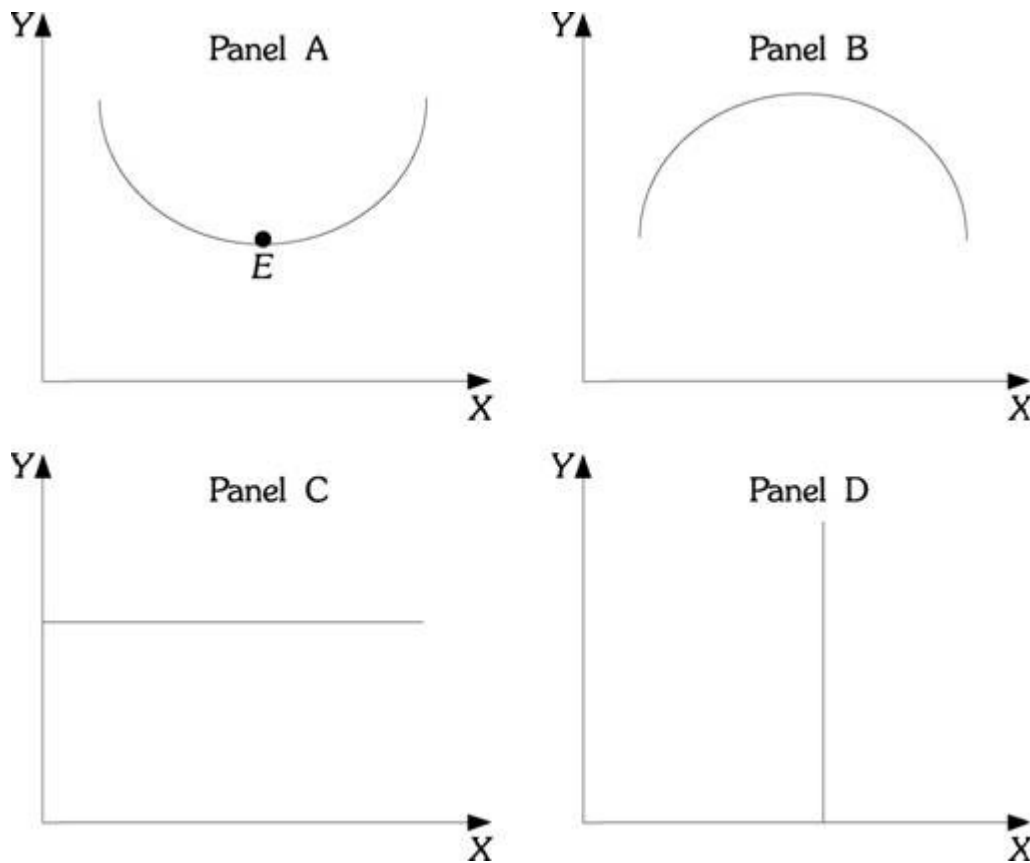


Figure 1.4

- 11) Refer to Figure 1.4. Panel A shows a curve which has a slope that is
- A) first positive, then zero, and then negative.
  - B) first negative, then zero, and then positive.
  - C) infinite throughout.
  - D) zero throughout.

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills



- 12) Refer to Figure 1.4. Panel B shows a curve which has a slope that is
- A) first positive and then negative.
  - B) first negative and then positive.
  - C) infinite throughout.
  - D) zero throughout.

Answer: A

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

- 13) Refer to Figure 1.4. Panel C shows a curve which has a slope that is
- A) first positive and then negative.
  - B) first negative and then positive.
  - C) infinite throughout.
  - D) zero throughout.

Answer: D

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

- 14) Refer to Figure 1.4. Panel D shows a curve which has a slope that is
- A) first positive and then negative.
  - B) first negative and then positive.
  - C) infinite throughout.
  - D) zero throughout.

Answer: C

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

- 15) Refer to Figure 1.4. At Point E in panel A, the slope is
- A) infinite.
  - B) zero.
  - C) negative.
  - D) indeterminate from this information.

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

16) The slope of a straight line

- A) is always positive.
- B) must first increase then decrease.
- C) is not constant.
- D) is constant.

Answer: D

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Fact

17) The slope of a vertical line is

- A) negative.
- B) zero.
- C) continually changing.
- D) infinite.

Answer: D

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Fact

18) If the slope of a straight line is 5 and if X (the variable on the horizontal axis) increases by 4, then Y (the variable on the vertical axis) will

- A) decrease by 0.8.
- B) decrease by 20.
- C) increase by 0.8.
- D) increase by 20.

Answer: D

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

19) If the slope of a straight line is 6 and if Y (the variable on the vertical axis) decreases by 60, then X (the variable on the horizontal axis)

- A) increases by 10.
- B) decreases by 10.
- C) increases by 600.
- D) decreases by 600.

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

20) The slope of a horizontal line is

- A) zero.
- B) infinite.
- C) continually changing.
- D) negative.

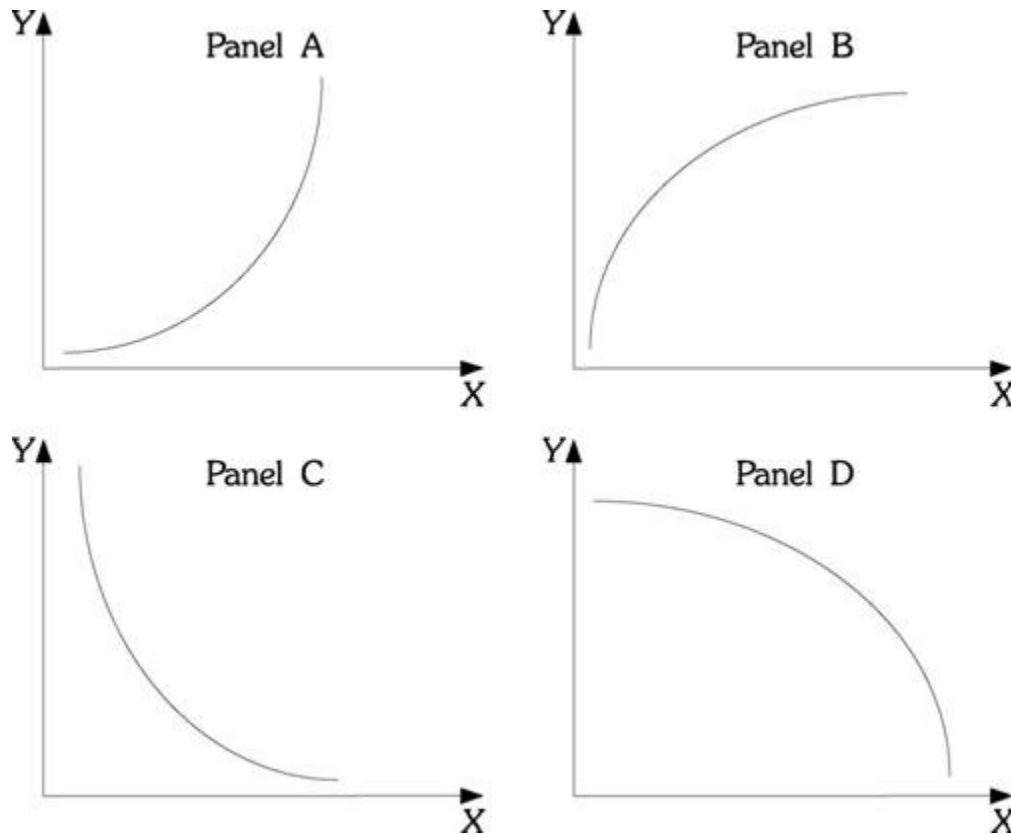
Answer: A

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Fact

*Refer to the information provided in Figure 1.5 below to answer the questions that follow.*



**Figure 1.5**

21) Refer to Figure 1.5. Panel A shows a curve with a slope that is

- A) positive and increasing.
- B) positive and decreasing.
- C) negative and increasing.
- D) negative and decreasing.

Answer: A

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

22) Refer to Figure 1.5. Panel B shows a curve with a slope that is

- A) positive and increasing.
- B) positive and decreasing.
- C) negative and increasing.
- D) negative and decreasing.

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

23) Refer to Figure 1.5. As income decreases, consumption decreases by a decreasing amount. If consumption is graphed on the vertical axis and income is graphed on the horizontal axis, the relationship between consumption and income would look like which of the following panels?

- A) A
- B) B
- C) C
- D) D

Answer: B

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

24) Refer to Figure 1.5. As firms produce additional units, average costs declines by a smaller and smaller amount. If output is graphed on the horizontal axis and average costs are graphed on the vertical axis, the relationship between average costs and output would be like which of the following panels?

- A) A
- B) B
- C) C
- D) D

Answer: D

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Analytic

AACSB: Analytic Skills

## 2 True/False

1) Dividing the change in quantity on the X axis by the change in quantity on the Y axis calculates the slope of a line.

Answer: FALSE

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Definition

2) A graph illustrating how two variables change over time is a Cartesian coordinate system.

Answer: TRUE

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Definition

3) As the variable on the Y-axis rises the variable on the X-axis rises. The relationship between x and y is said to be direct.

Answer: TRUE

Diff: 2

Topic: Appendix: How to Read and Understand Graphs

Skill: Definition

4) As the variable on the Y-axis rises the variable on the X-axis falls. The relationship between X and Y is said to be direct.

Answer: FALSE

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Definition

5) The slope of a curve is constant.

Answer: FALSE

Diff: 1

Topic: Appendix: How to Read and Understand Graphs

Skill: Fact

***Principles of Microeconomics, 9e - Test Item File 2 (Case/Fair/Oster)***  
**Chapter 2 The Economic Problem: Scarcity and Choice**

**2.1 Scarcity, Choice, and Opportunity Cost**

**1 Multiple Choice**

- 1) Production is the process by which
- A) products are used by consumers.
  - B) resources are transformed into useful forms.
  - C) products are converted into capital.
  - D) resources are allocated and distributed.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

- 2) Goods and services of value to households are
- A) inputs in the production process.
  - B) outputs in the production process.
  - C) both inputs and outputs in the production process.
  - D) unrelated to the production process.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

- 3) Which of the following is a resource as the term is used by economists?
- A) buildings
  - B) labor
  - C) land
  - D) all of the above

Answer: D

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Fact

- 4) Which of the following would an economist classify as capital?
- A) a new deposit of natural gas
  - B) a government savings bond
  - C) a police car
  - D) a \$100 traveller's check

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 5) Economists refer to things that have already been produced that are in turn used to produce other goods and services as
- A) land.
  - B) labor.
  - C) entrepreneurship.
  - D) capital.

Answer: D

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

- 6) The principle that the cost of something is equal to what is sacrificed to get it is known as the
- A) marginal principle.
  - B) principle of opportunity cost.
  - C) principle of diminishing returns.
  - D) reality principle.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

- 7) If scarcity was eliminated
- A) trade would become unnecessary.
  - B) opportunity costs would increase.
  - C) all nations would have an absolute advantage in producing all products.
  - D) the concept of trade-offs would become irrelevant.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

- 8) According to the theory of \_\_\_\_\_, specialization and free trade will benefit all trade partners, even when some are absolutely more efficient producers than others.
- A) comparative advantage
  - B) absolute advantage
  - C) social equity
  - D) laissez-faire

Answer: A

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Table 2.1 below to answer the following questions.

Table 2.1

	Molly	Pete
Avatar Design	6	8
Tattoo Design	3	2

9) Refer to Table 2.1. For Molly, the opportunity cost of designing one tattoo is

- A) 1/2 of an avatar design.
- B) 1 avatar design.
- C) 2 avatar designs.
- D) 3 avatar designs.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

10) Refer to Table 2.1. For Pete, the opportunity cost of designing one tattoo is

- A) 1/4 of an avatar design.
- B) 2 avatar designs.
- C) 4 avatar designs.
- D) 6 avatar designs.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

11) Refer to Table 2.1. Which of the following statements is *true*?

- A) Molly has a comparative advantage in both avatar design and tattoo design.
- B) Pete has a comparative advantage in both avatar design and tattoo design.
- C) Molly has a comparative advantage in avatar design and Pete has a comparative advantage in tattoo design.
- D) Pete has a comparative advantage in avatar design and Molly has a comparative advantage in tattoo design.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills



12) Refer to Table 2.1. To maximize total production

- A) Molly should specialize in avatar design and Pete should specialize in tattoo design.
- B) Pete should specialize in avatar design and Molly should specialize in tattoo design.
- C) Molly and Pete should both split their time between designing avatars and tattoos.
- D) Molly should design avatars and tattoos, but Pete should only design avatars.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

13) Refer to Table 2.1. For Pete, the opportunity cost of designing three tattoos is \_\_\_\_\_ avatar designs.

- A) 6
- B) 12
- C) 24
- D) an indeterminate number of

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

14) Refer to Table 2.1. For Molly, the opportunity cost of designing four tattoos is \_\_\_\_\_ avatar designs.

- A) 6
- B) 8
- C) 12
- D) 24

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

15) According to the theory of comparative advantage, trade and specialization \_\_\_\_\_ productivity by \_\_\_\_\_ opportunity costs.

- A) raise; raising
- B) raise; lowering
- C) lower; raising
- D) lower; lowering

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

16) Specialization and trade exploit differences in productivity across workers and

- A) only benefit the exporter.
- B) only benefit the importer.
- C) make everyone better off.
- D) make everyone worse off.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

17) If someone can produce a good at a lower opportunity cost, she \_\_\_\_\_ in producing that good.

- A) has a comparative advantage
- B) has an absolute advantage
- C) experiences no diminishing returns
- D) experiences no sunk costs

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

18) If a vintner has a comparative advantage in producing wine

- A) he can produce more wine using the same resources than other vintners.
- B) wine is the only product he can produce.
- C) he can produce wine at a lower opportunity cost than other vintners.
- D) he also has an absolute advantage in producing wine.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

19) Which of the following is an act of economic "investment"?

- A) The state legislature authorizes the sale of a state park.
- B) An entrepreneur buys 5000 shares of stock at \$5 a share and then sells the stock at a profit for \$60 a share.
- C) A brewer purchases a new fermentation system for his beer.
- D) A teacher deposits \$500 in a retirement account.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

20) In economics, the creation of capital is referred to as

- A) investment.
- B) comparative advantage.
- C) consumption.
- D) allocation.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

21) The process of using \_\_\_\_\_ to produce new capital is known as \_\_\_\_\_.

- A) money; specialization
- B) resources; investment
- C) specialization; absolute advantage
- D) comparative advantage; inefficient production

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

22) Saving is an example of

- A) exchanging capital for cash.
- B) exchanging scarce resources for unlimited resources.
- C) trading present benefits for future benefits.
- D) trading future benefits for present benefits.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

23) The opportunity cost of investment in capital is forgone present consumption when

- A) resources are scarce.
- B) resources are unlimited.
- C) capital is in greater supply than labor.
- D) the public chooses consumption over investment.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

24) An example of an investment is

- A) the purchase of an iPhone by a company for one of its salesmen.
- B) the purchase of a share of Berkshire Hathaway stock.
- C) the purchase of a government Treasury bill.
- D) all of the above

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

25) Because resources are scarce, the opportunity cost of investment in capital is

- A) past investment.
- B) past consumption.
- C) foregone present consumption.
- D) future consumption.

Answer: C

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

26) If the unemployment rate decreases from 9% to 6%, the economy will

- A) move closer to a point on the ppf.
- B) move away from the ppf toward the origin.
- C) remain on the ppf.
- D) remain on the origin.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

27) Periods of full employment correspond to

- A) points outside the ppf.
- B) points inside the ppf.
- C) points on the ppf.
- D) either points inside or outside the ppf.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 2.1 below to answer the questions that follow.

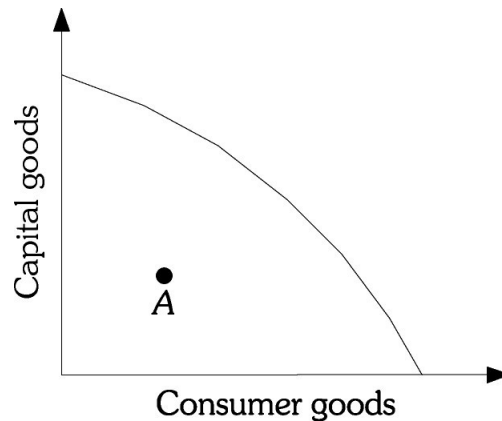


Figure 2.1

28) Refer to Figure 2.1. The economy is currently operating at Point A. The best explanation for this is that

- A) the economy has experienced increasing technology.
- B) the economy's resources are being underemployed.
- C) the economy has too few resources to operate on the production curve.
- D) the economy is operating above full employment.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

29) Refer to Figure 2.1. The economy's production possibility frontier \_\_\_\_\_ due to specialized resources.

- A) is convex to the origin
- B) displays constant opportunity costs
- C) demonstrates decreasing opportunity costs
- D) is bowed out from the origin

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

30) Refer to Figure 2.1. The shape of the economy's production possibility frontier shows

- A) decreasing opportunity costs.
- B) constant opportunity costs.
- C) increasing opportunity costs.
- D) random opportunity costs.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

31) If an economy is fully utilizing its resources, it can produce more of one product only if it

- A) doubles manufacturing of the product.
- B) produces less of another product.
- C) adds more people to the labor force.
- D) reduces the price of the most expensive products.

Answer: B

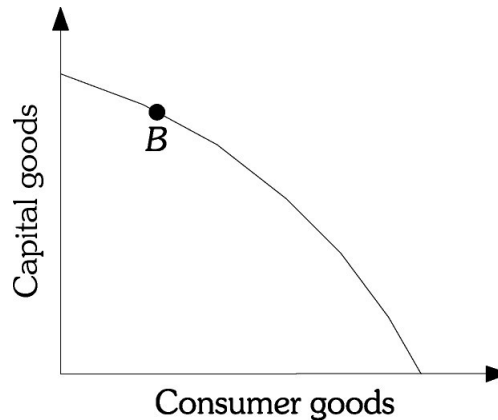
Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

*Refer to the information provided in Figure 2.2 below to answer the questions that follow.*



**Figure 2.2**

32) Refer to Figure 2.2. Full resource employment and production efficiency is represented by a point

- A) inside the production curve.
- B) along the production curve.
- C) outside the production curve.
- D) either inside or along the production curve.

Answer: B

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

33) Refer to Figure 2.2. You correctly deduce that all resources are fully employed and there are no production inefficiencies if this economy is currently operating at a point

- A) inside the production curve.
- B) along the production curve.
- C) outside the production curve.
- D) either inside or along the production curve.

Answer: B

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

34) All the combinations of goods and services that can be produced if all of society's resources are used efficiently are represented on an economy's

- A) production possibility frontier.
- B) resource availability diagram.
- C) factors of production statement.
- D) allocative allotment graph.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

35) When an economy is producing inside its production possibility frontier

- A) production inefficiency occurs.
- B) only technological advances will allow it to increase production.
- C) it is efficient so long as it is producing what people want.
- D) it must overcompensate by producing outside the curve to achieve efficiency.

Answer: A

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

36) If an economy is producing on its production possibility frontier but is not producing what people want, the economy

- A) is experiencing technological advancement.
- B) is producing at more than one point on the production possibility frontier.
- C) is not being allocatively efficient.
- D) is not being productively efficient.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 37) If a society is producing at a point along its production possibility frontier, then the society
- A) is fully employing its resources so it must be allocatively efficient.
  - B) is fully employing its resources, but not necessarily being allocatively efficient.
  - C) is underallocating resources so it must be inefficient.
  - D) is overallocating resources so efficiency is indeterminant.

Answer: B

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 38) Suppose an economy produces cell phones and GPS devices in perfectly competitive industries. The economy is currently operating at a point on its production possibility frontier. The economy will most likely move to a less-desirable point on the production possibility frontier if
- A) more firms enter the GPS device industry.
  - B) more firms enter the cell phone industry.
  - C) more firms enter both the GPS device industry and the cell phone industry.
  - D) a single firm gains control over the production of cell phones.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 39) The value of the slope of a society's production possibility frontier is called its
- A) value of diminishing efficiency.
  - B) marginal rate of substitution.
  - C) marginal rate of transformation.
  - D) diminishing opportunity cost of capitalization.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

- 40) Assume a society can produce either beer or wine. If the marginal rate of transformation of gallons of beer into gallons of wine is 0.5, then the opportunity cost of wine is
- A) the 2 gallons of beer that must be forgone.
  - B) the 2 gallons of wine that must be forgone.
  - C) the 0.5 gallons of beer that must be forgone.
  - D) the additional 0.5 gallons of beer that can be produced.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic



- 41) The marginal rate of transformation is
- A) also called the marginal rate of substitution.
  - B) growth associated with technological advances.
  - C) the measure of diminishing marginal utility.
  - D) the slope of the production possibility frontier.

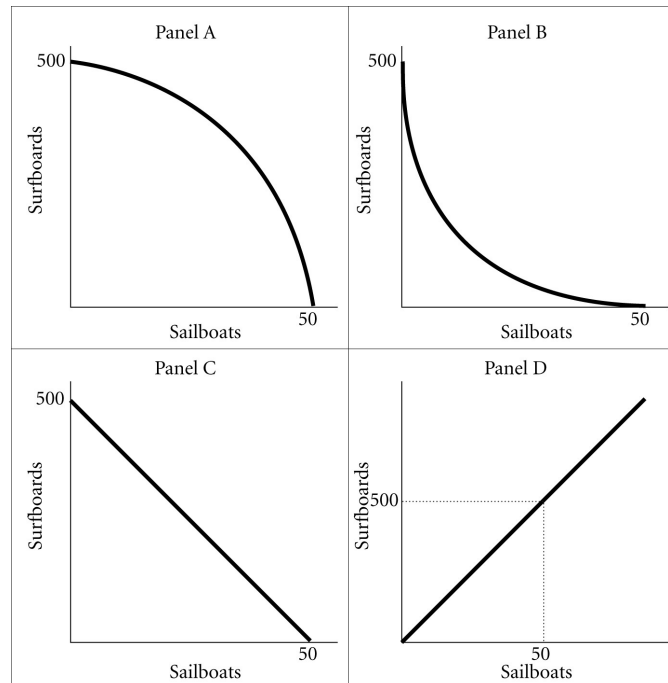
Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

*Refer to the information provided in Figure 2.3 below to answer the questions that follow.*



**Figure 2.3**

- 42) Refer to Figure 2.3. Assume that this society's production possibility frontier is represented by Panel C. The marginal rate of transformation of sailboats for surfboards is
- A)  $1/10$ .
  - B)  $-1/10$ .
  - C) 10.
  - D) -10.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

43) Refer to Figure 2.3. Assume that this society's production possibility frontier is represented by Panel C. The opportunity cost of sailboats in terms of surfboards is

- A) constant.
- B) increasing.
- C) decreasing.
- D) infinite.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

44) Refer to Figure 2.3. Increasing opportunity costs are best depicted by the production possibility frontier in panel

- A) A.
- B) B.
- C) C.
- D) D.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

45) A society can produce two goods: green tea and vitamin water. As this society moves down its production possibility frontier, producing more and more units of vitamin water, the opportunity cost of producing vitamin water increases. The society's production possibilities frontier will be

- A) positively sloped and bowed outward.
- B) positively sloped and bowed inward.
- C) negatively sloped and bowed outward.
- D) negatively sloped and bowed inward.

Answer: C

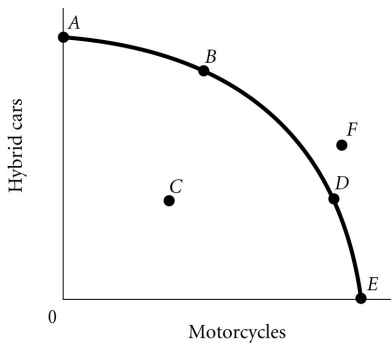
Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 2.4 below to answer the questions that follow.



**Figure 2.4**

46) According to Figure 2.4, Point A necessarily represents

- A) an unattainable production point.
- B) only hybrid cars being produced.
- C) the economy's optimal production point.
- D) what society wants.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

47) According to Figure 2.4, the optimal point for the economy is

- A) B.
- B) D.
- C) F.
- D) indeterminate from the information given.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

48) According to Figure 2.4, Point F

- A) is efficient and attainable.
- B) represents underallocation of resources.
- C) represents what the people want.
- D) cannot be produced with the current state of technology.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

49) According to Figure 2.4, Point *E* necessarily represents

- A) an impossible production point.
- B) technological advancement.
- C) overallocation of resources.
- D) only motorcycles being produced.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

50) According to Figure 2.4, an increase in unemployment may be represented by the movement from

- A) *B* to *A*.
- B) *B* to *D*.
- C) *C* to *D*.
- D) *A* to *C*.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

51) According to Figure 2.4, as the economy moves from Point *B* to Point *D*, the opportunity cost of motorcycles, measured in terms of hybrid cars

- A) remains constant.
- B) decreases.
- C) increases
- D) initially increases, then decreases.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

52) According to Figure 2.4, as the economy moves from Point *D* to Point *B*, the opportunity cost of hybrid cars, measured in terms of motorcycles

- A) remains constant.
- B) decreases.
- C) increases.
- D) initially increases, then decreases.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

- 53) Refer to Figure 2.4. The economy moves from Point *E* to Point *B*. This could be explained by
- A) an increase in unemployment.
  - B) a reduction in unemployment.
  - C) a change in society's preferences for hybrid cars versus motorcycles.
  - D) an increase in economic growth.

Answer: C

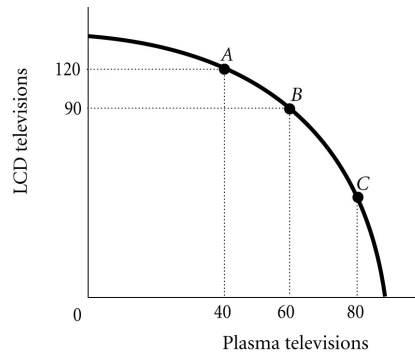
Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

*Refer to the information provided in Figure 2.5 below to answer the questions that follow.*



**Figure 2.5**

- 54) Refer to Figure 2.5. The economy is currently at Point *B*. The opportunity cost of moving from Point *B* to Point *A* is the
- A) 40 plasma TVs that must be forgone to produce 120 additional LCD TVs.
  - B) 20 plasma TVs that must be forgone to produce 30 additional LCD TVs.
  - C) 30 LCD TVs that must be forgone to produce 40 additional plasma TVs.
  - D) 120 LCD TVs that must be forgone to produce 20 additional plasma TVs.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

- 55) Refer to Figure 2.5. The marginal rate of transformation in moving from Point *B* to Point *A* is
- A)  $-2/3$ .
  - B)  $-3/4$ .
  - C)  $-1.5$ .
  - D)  $-20$ .

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

56) Refer to Figure 2.5. For this economy to move from Point C to Point B, \_\_\_\_\_ LCD TVs could be produced when the production of plasma TVs is reduced by 20.

- A) exactly 30
- B) fewer than 30
- C) more than 30
- D) exactly 60

Answer: C

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

57) Refer to Figure 2.5. The most desirable production alternative for society would be

- A) either Point B or Point C, as the total amount being produced at either of these points is approximately the same.
- B) indeterminate from this information, as we don't have any information about the society's desires.
- C) Point C, as at this point there are approximately equal amounts of LCD and plasma TVs being produced.
- D) at any of the labeled points, as all of the points represent an efficient allocation of resources.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

58) If an economy's production possibility frontier is negatively sloped and "bowed outward" from the origin, then the opportunity cost of producing a good

- A) increases as more of that good is produced.
- B) decreases as more of that good is produced.
- C) remains constant as more of that good is produced.
- D) remains constant as less of that good is produced.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

59) As you move up the production possibility frontier, the absolute value of the marginal rate of transformation

- A) increases.
- B) decreases.
- C) initially increases, then decreases.
- D) initially decreases, then increases.

Answer: A

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

60) Because resources are not equally well suited to producing all goods

- A) as more of a good is produced the inputs used to produce that good will increase in price.
- B) the opportunity costs of producing a good will increase as more of that good is produced.
- C) the opportunity costs of producing a good will decrease as more of that good is produced.
- D) as more of a good is produced the quality of that good declines and therefore the costs of production increase.

Answer: B

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

61) Economic growth will most likely occur when

- A) a society acquires new resources.
- B) a society decides to produce less using existing resources.
- C) the society begins to produce the combination of goods society wants most.
- D) technology remains unchanged but unemployment increases.

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 2.6 below to answer the questions that follow.

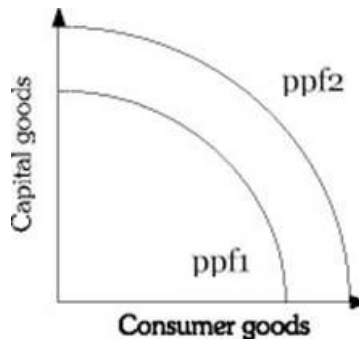


Figure 2.6

62) Refer to Figure 2.6. An increase in the economy's capital stock is represented by a

- A) shift from ppf2 to ppf1.
- B) shift from ppf1 to ppf2.
- C) movement along ppf1.
- D) movement along ppf2.

Answer: B

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

63) Refer to Figure 2.6. A shift from ppf1 to ppf2 may be caused by

- A) an increase in inflation.
- B) an increased desire for consumer goods.
- C) a change in consumer tastes.
- D) an improvement in technology.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

64) Refer to Figure 2.6. Which of the following will shift an economy's production possibility frontier from ppf2 to ppf1?

- A) a decrease in the economy's capital stock
- B) an increase in production efficiency
- C) a change in consumer's tastes
- D) economic growth

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills



65) Refer to Figure 2.6. Which of the following will NOT cause the production possibility frontier to shift from ppf<sup>1</sup> to ppf<sup>2</sup>?

- A) a decrease in the unemployment rate assuming a constant labor force.
- B) an increase in the stock of capital
- C) the discovery of previously unknown natural gas sources
- D) an improvement in technology

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

66) Refer to Figure 2.6. Which of the following is most likely to shift the production possibility frontier from ppf<sup>2</sup> to ppf<sup>1</sup>?

- A) a change in consumer tastes
- B) the purchase of government Treasury bills
- C) moving resources from consumer goods to capital goods
- D) a decrease in the general educational level of the population

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

67) Refer to Figure 2.6. If the economy is at ppf<sup>2</sup>, a change in consumer preferences would be shown by a

- A) shift from ppf<sup>2</sup> to ppf<sup>1</sup>.
- B) movement along ppf<sup>1</sup>.
- C) movement along ppf<sup>2</sup>.
- D) shift from ppf<sup>1</sup> to ppf<sup>2</sup>.

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

68) Due to a mild winter, Florida experienced a bumper crop of oranges. This would best be represented by a(n)

- A) movement down the U.S. production possibility frontier.
- B) movement off the U.S. production possibility frontier to some point inside the frontier.
- C) movement up the U.S. production possibility frontier.
- D) outward shift of the U.S. production possibility frontier away from the origin.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Analytic

AACSB: Analytic Skills

69) For an economy to produce at a point \_\_\_\_\_ current production possibility frontier, the economy must increase its resource base.

- A) higher up on its
- B) inside its
- C) beyond its
- D) which is optimally efficient on its

Answer: C

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

70) In terms of the production possibility frontier, \_\_\_\_\_ would best be shown by the production possibility frontier shifting outward.

- A) an increase in productivity attributable to new technology
- B) a decrease in the unemployment rate
- C) a shift in resources from capital goods to consumer goods
- D) a change in consumer tastes

Answer: A

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

71) A decrease in the stock of capital will cause the

- A) production possibility frontier to shift outward.
- B) production possibility frontier to shift inward.
- C) economy to move down the production possibility frontier.
- D) economy to move closer to its production possibility frontier.

Answer: B

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

72) Consider two countries, Estonia and Ukraine. Estonia devotes a larger portion of its production to capital. All other things equal which of the following statements is most likely true?

- A) Estonia is a poorer country than Ukraine.
- B) Estonia will move up its production possibility curve faster than Ukraine.
- C) Estonia's production possibility frontier will shift up and out farther and faster than Ukraine's.
- D) Ukraine is producing inside its production possibility frontier, whereas Estonia is producing at a point on its production possibility frontier.

Answer: C

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

73) The gap between rich and poor countries has \_\_\_\_\_ over time because poor countries find it difficult to devote resources to \_\_\_\_\_ production.

- A) increased; capital
- B) decreased; capital
- C) remained constant; capital
- D) remained constant; capital and consumer goods

Answer: A

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Fact

74) An economy produces capital goods and consumer goods. This economy is operating at a point on its production possibility frontier associated with a large amount of capital goods and a small amount of consumer goods. This is most likely to be a

- A) "poor" country because such a nation has difficulty devoting many resources to the production of consumer goods.
- B) "rich" country because such a nation can afford to sacrifice.
- C) country with a free market.
- D) country with a command economy.

Answer: B

Diff: 3

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

75) Given scarce resources, how societies go about deciding what to produce, how to produce it and for whom to produce best describes

- A) decreasing opportunity costs.
- B) the fallacy of composition.
- C) Ockham's razor.
- D) the economic problem.

Answer: D

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

76) Related to the *Economics in Practice* on p. 28: Based on the increase in the number of women in the labor force over the past 50 years, the opportunity cost of preparing a home-cooked meal

- A) decreased.
- B) increased.
- C) remained constant.
- D) dropped to zero.

Answer: B

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

- 77) Related to the *Economics in Practice* on p. 28: One reason for the increase in sales of frozen foods from \$1 billion in 1950 to \$27 billion in 2007 is the
- A) increased opportunity cost of cooking frozen meals.
  - B) decrease in the number of women in the labor force.
  - C) increased opportunity cost of preparing home-cooked meals.
  - D) decrease in popularity of the microwave oven.

Answer: C

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

## 2 True/False

- 1) In economics, the term "investment" refers to the purchase of stocks and bonds.

Answer: FALSE

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

- 2) Among the resources used in production are land and capital.

Answer: TRUE

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Fact

- 3) Things that have already been produced that are in turn used to produce other goods and services over time are called "production possibility frontiers."

Answer: FALSE

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Definition

- 4) When two people trade, one must lose for the other to win.

Answer: FALSE

Diff: 2

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 5) Economic growth shifts a society's production possibility frontier toward the origin.

Answer: FALSE

Diff: 1

Topic: Scarcity, Choice, and Opportunity Cost

Skill: Conceptual

AACSB: Reflective Thinking

- 6) A society's production possibility frontier is bowed out from the origin because some resources are better suited for producing one good as opposed to the other.  
Answer: TRUE  
Diff: 1  
Topic: Scarcity, Choice, and Opportunity Cost  
Skill: Conceptual  
AACSB: Reflective Thinking
- 7) The "economic problem" is that given scarce resources, how do large societies go about answering the basic economic questions of what will be produced, why it will be produced, and how it will be equitably distributed.  
Answer: FALSE  
Diff: 1  
Topic: Scarcity, Choice, and Opportunity Cost  
Skill: Definition
- 8) Comparative advantage refers to the ability to produce goods at a lower opportunity cost, and therefore more efficiently, than a competitor.  
Answer: TRUE  
Diff: 2  
Topic: Scarcity, Choice, and Opportunity Cost  
Skill: Definition
- 9) Comparative advantage refers to the ability to produce at a lower financial cost than a competitor.  
Answer: FALSE  
Diff: 2  
Topic: Scarcity, Choice, and Opportunity Cost  
Skill: Definition
- 10) Manufacturers produce only what the market is willing to pay for.  
Answer: FALSE  
Diff: 1  
Topic: Scarcity, Choice, and Opportunity Cost  
Skill: Conceptual  
AACSB: Reflective Thinking

## 2.2 Economic Systems

### 1 Multiple Choice

- 1) In a command economy, \_\_\_\_\_ establishes what will be produced and when, sets production goals, and makes rules for distribution.  
A) individuals and households  
B) only privately owned firms  
C) a centralized authority  
D) individuals, households and privately owned firms  
Answer: C  
Diff: 2  
Topic: Economic Systems  
Skill: Definition

2) In a laissez-faire economy

- A) individual people and firms pursue their own self-interest.
- B) the government decided how to distribute goods and services.
- C) a centralized authority establishes what will be produced.
- D) consumers do not exercise choice.

Answer: A

Diff: 2

Topic: Economic Systems

Skill: Definition

3) Which of the following statements is *true*?

- A) Planned economies have fared very well in recent years, with many of these economies thriving.
- B) Command economies operate the most efficiently because the government makes all the production decisions.
- C) In command economies consumers still exercise choice.
- D) In a command economy, consumers answer the questions of what to produce, how to produce it, and how to distribute it.

Answer: C

Diff: 2

Topic: Economic Systems

Skill: Conceptual

AACSB: Reflective Thinking

4) Production decisions are centralized in a

- A) laissez-faire economy.
- B) command economy.
- C) invisible-hand economy.
- D) utopian economy.

Answer: B

Diff: 1

Topic: Economic Systems

Skill: Fact

5) Which of the following statements is true for a command economy?

- A) Consumers have no choice concerning what they buy.
- B) Manufacturers decide what is produced.
- C) The amount of a good supplied always equals the amount of the good demanded.
- D) The state decides how to distribute what is produced.

Answer: D

Diff: 1

Topic: Economic Systems

Skill: Fact

6) In a \_\_\_\_\_ economy, the behavior of buyers and sellers determines what gets produced, how it is produced, and who gets it.

- A) command
- B) laissez-faire
- C) socialist
- D) utopian

Answer: B

Diff: 1

Topic: Economic Systems

Skill: Fact

7) In a market system, self-interest motivates most people to

- A) avoid paying insurance premiums.
- B) remain self-sufficient.
- C) provide products for other people.
- D) rely on government central planning.

Answer: C

Diff: 2

Topic: Economic Systems

Skill: Conceptual

AACSB: Reflective Thinking

8) Which of the following is true of a market economy?

- A) In its pure form, it is also known as a command economy.
- B) Decisions are regulated by a central agency.
- C) The government answers the basic economic questions of what gets produced, how it gets produced, and who gets it.
- D) It relies on millions of individual economic decisions to determine economic outcomes.

Answer: D

Diff: 2

Topic: Economic Systems

Skill: Definition

9) The idea that consumers determine what is produced in the economy through their demands is known as

- A) a laissez-faire economy.
- B) a command economy.
- C) consumer sovereignty.
- D) free enterprise.

Answer: C

Diff: 2

Topic: Economic Systems

Skill: Definition

10) The freedom of individuals to start and operate private business in search of profits is known as

- A) laissez-faire.
- B) free enterprise.
- C) centralized decision making.
- D) consumer sovereignty.

Answer: B

Diff: 2

Topic: Economic Systems

Skill: Definition

11) The amount that \_\_\_\_\_ have accumulated out of past income through saving and inheritance is wealth.

- A) governments
- B) households
- C) markets
- D) corporations

Answer: B

Diff: 2

Topic: Economic Systems

Skill: Definition

12) In a \_\_\_\_\_, the amount of output that any one household gets depends on its income and wealth.

- A) Marxist economy
- B) socialist economy
- C) command system
- D) free market system

Answer: D

Diff: 1

Topic: Economic Systems

Skill: Conceptual

AACSB: Reflective Thinking

13) In which system are decisions made by thousands of people who have information about resources, production technology and consumer desires?

- A) market system
- B) centrally planned system
- C) command system
- D) socialist system

Answer: A

Diff: 1

Topic: Economic Systems

Skill: Conceptual

AACSB: Reflective Thinking



14) In a laissez-faire economy, what provides individuals the information needed to make decisions?

- A) insurance
- B) prices
- C) patents
- D) government

Answer: B

Diff: 1

Topic: Economic Systems

Skill: Conceptual

AACSB: Reflective Thinking

15) Which of the following statements is *true*?

- A) In a free market system, the basic economic questions are answered with the help of a central government plan or directive.
- B) Individuals guided by selfish behavior will produce products and services that generate the highest profits.
- C) The basic coordinating mechanism in a free market system is quantity adjustments toward equilibrium.
- D) In a free market system, competition forces firms to adopt efficient production techniques.

Answer: D

Diff: 2

Topic: Economic Systems

Skill: Conceptual

AACSB: Reflective Thinking

16) Some economists advocate government intervention in a market economy when resource costs for a private producer \_\_\_\_\_ to society.

- A) are greater than the full cost
- B) are equal to the full cost
- C) do not reflect the full cost
- D) have no relevant cost

Answer: C

Diff: 1

Topic: Economic Systems

Skill: Fact

## 2 True/False

1) The market system works by getting each person, motivated by his or her own self-interest, to produce products for other people.

Answer: TRUE

Diff: 2

Topic: Economic Systems

Skill: Conceptual

AACSB: Reflective Thinking

- 2) A command economy is one in which individuals and firms set output targets, incomes and prices.  
Answer: FALSE  
Diff: 2  
Topic: Economic Systems  
Skill: Definition
- 3) Markets exist in a command economy.  
Answer: TRUE  
Diff: 2  
Topic: Economic Systems  
Skill: Conceptual  
AACSB: Reflective Thinking
- 4) Price is the coordinating mechanism in a laissez-faire economy.  
Answer: TRUE  
Diff: 2  
Topic: Economic Systems  
Skill: Conceptual  
AACSB: Reflective Thinking
- 5) The notion that buyers determine what will be produced by choosing what they purchase is called a command economy.  
Answer: FALSE  
Diff: 2  
Topic: Economic Systems  
Skill: Definition

***Principles of Microeconomics, 9e - Test Item File 2 (Case/Fair/Oster)***  
**Chapter 3 Demand, Supply, and Market Equilibrium**

**3.1 Firms and Households: The Basic Decision Making Units**

**1 Multiple Choice**

- 1) Mary Kay Ash was one of the first individuals who sold cosmetics directly to customers via independent sales representatives. The company founded by Mary Kay is now one of the largest and most successful cosmetics companies in the world. Mary Kay Ash would be classified as a(n)

A) entrepreneur.  
B) opportunist.  
C) monopolist.  
D) socialist.

Answer: A

Diff: 1

Topic: Firms and Households

Skill: Conceptual

- 2) Organizations that transform resources into products are known as

A) firms.  
B) entrepreneurs.  
C) households.  
D) factors.

Answer: A

Diff: 1

Topic: Firms and Households

Skill: Definition

- 3) An entrepreneur is a person who

A) assumes the risk of a firm.  
B) organizes and manages a firm.  
C) turns a new idea or product into a business.  
D) all of the above

Answer: D

Diff: 1

Topic: Firms and Households

Skill: Definition

- 4) Firms engage in production to

A) develop a supply schedule.  
B) participate in the circular flow.  
C) acquire profits.  
D) assume risk.

Answer: C

Diff: 1

Topic: Firms and Households

Skill: Conceptual

## 2 True/False

- 1) Economists would classify the New York Mets as a firm.  
Answer: TRUE  
Diff: 2  
Topic: Firms and Households  
Skill: Conceptual  
AACSB: Reflective Thinking
- 2) Firms are the consuming units of the economy.  
Answer: FALSE  
Diff: 1  
Topic: Firms and Households  
Skill: Definition
- 3) Entrepreneurs are necessary in a market economy and their profit is earned.  
Answer: TRUE  
Diff: 1  
Topic: Firms and Households  
Skill: Conceptual  
AACSB: Reflective Thinking

## 3.2 Input Markets and Output Markets: The Circular Flow

### 1 Multiple Choice

- 1) In factor or input markets
  - A) consumers purchase products.
  - B) firms supply goods.
  - C) firms demand resources
  - D) households demand goods.Answer: C  
Diff: 1  
Topic: Input Markets and Output Markets  
Skill: Conceptual
- 2) Resources are exchanged in \_\_\_\_\_ markets.
  - A) product
  - B) factor
  - C) exchange rate
  - D) stockAnswer: B  
Diff: 1  
Topic: Input Markets and Output Markets  
Skill: Conceptual

3) Consumers purchase products in \_\_\_\_\_ markets.

- A) output
- B) factor
- C) resource
- D) input

Answer: A

Diff: 2

Topic: Input Markets and Output Markets

Skill: Conceptual

4) Capital, wages and income are

- A) factors of production.
- B) inputs.
- C) resources.
- D) all of the above

Answer: D

Diff: 2

Topic: Input Markets and Output Markets

Skill: Fact

## 2 True/False

1) Inputs are traded in the factor market.

Answer: TRUE

Diff: 1

Topic: Input Markets and Output Markets

Skill: Conceptual

2) Households are paid income for the resources they supply in an output market.

Answer: FALSE

Diff: 1

Topic: Input Markets and Output Markets

Skill: Conceptual

3) Labor is demanded by firms in an input market.

Answer: TRUE

Diff: 1

Topic: Input Markets and Output Markets

Skill: Conceptual

### 3.3 Demand in Product / Output Markets

#### 1 Multiple Choice

1) Income \_\_\_\_\_ along the demand curve.

- A) increases
- B) decreases
- C) is held constant
- D) either increases or decreases

Answer: C

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

2) Which of the following will NOT cause a shift in the demand curve for DVDs?

- A) a change in income
- B) a change in wealth
- C) a change in the price of prerecorded VHS tapes
- D) a change in the price of DVDs

Answer: D

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

3) The law of \_\_\_\_\_ implies that as prices fall, \_\_\_\_\_.

- A) demand; demand increases
- B) demand; demand falls
- C) demand; quantity demanded increases
- D) supply; supply increases

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Definition

4) According to the law of demand, quantity demanded increases as \_\_\_\_\_, *ceteris paribus*.

- A) prices rise
- B) prices fall
- C) demand increases
- D) demand decreases

Answer: B

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Definition

5) According to the law of demand there is negative relationship between \_\_\_\_\_ and \_\_\_\_\_.

- A) price; demand
- B) quantity; income
- C) price; income
- D) price; quantity demanded

Answer: D

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Conceptual

6) As an individual consumes \_\_\_\_\_ of a product within a given period of time, it is likely that each additional unit consumed will yield \_\_\_\_\_ satisfaction.

- A) more; successively more
- B) more; successively less
- C) more; no additional
- D) less; negative

Answer: B

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in the Figure below to answer the questions that follow.

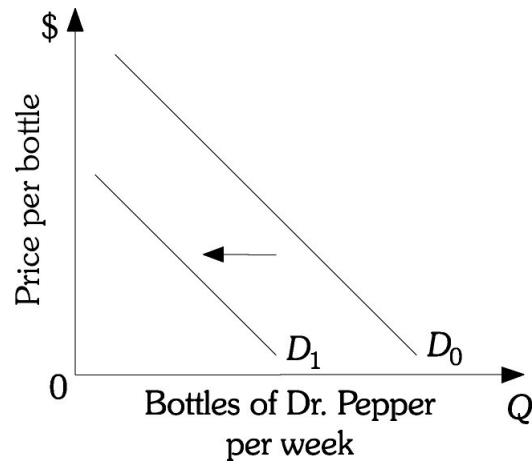


Figure 3.1

7) Refer to Figure 3.1. Which of the following would be most likely to cause the demand for Dr. Pepper to shift from  $D_0$  to  $D_1$ ?

- A) an increase in income, assuming that Dr. Pepper is a normal good
- B) a decrease in the price of 7-UP, assuming 7-UP is a substitute for Dr. Pepper
- C) an increase in the price of Dr. Pepper
- D) an increase in the price of sugar used to make Dr. Pepper

Answer: B

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills



Refer to the information provided in the Figure below to answer the questions that follow.

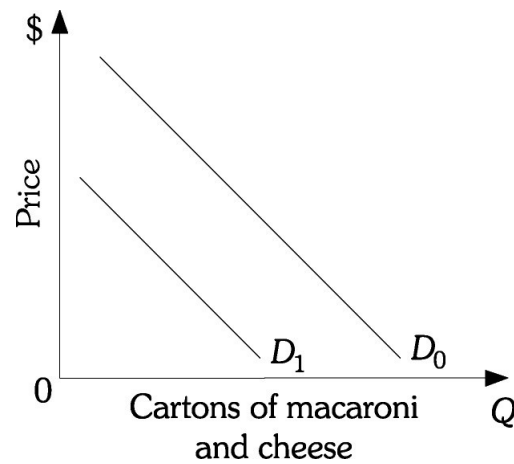


Figure 3.2

8) Refer to Figure 3.2. Which of the following would be most likely to cause the demand for macaroni and cheese to shift from  $D_0$  to  $D_1$ ?

- A) an increase in the price of macaroni and cheese
- B) an increase in the price of flour used to make macaroni and cheese
- C) a decrease in income, assuming macaroni and cheese is a normal good
- D) an increase in the quantity demanded for macaroni and cheese

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

9) If the demand for mac and cheese decreases as income increases, mac and cheese is a(n)

- A) complementary good.
- B) normal good.
- C) inferior good.
- D) substitute good.

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Definition

10) If the demand for green tea increases as income increases, green tea is a(n)

- A) complementary good.
- B) substitute good.
- C) normal good.
- D) inferior good.

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Definition

Refer to the information provided in Figure 3.3 below to answer the questions that follow.

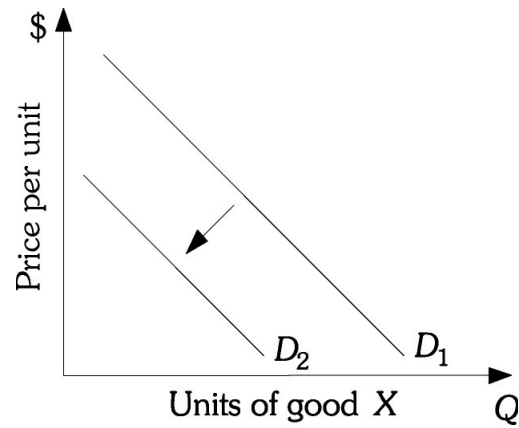


Figure 3.3

11) Refer to Figure 3.3. As your income decreased, the demand for X shifted from  $D_1$  to  $D_2$ .

Good X is

- A) an inferior good.
- B) a normal good.
- C) a luxury good.
- D) an income-neutral good.

Answer: B

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in Figure 3.4 below to answer the questions that follow.

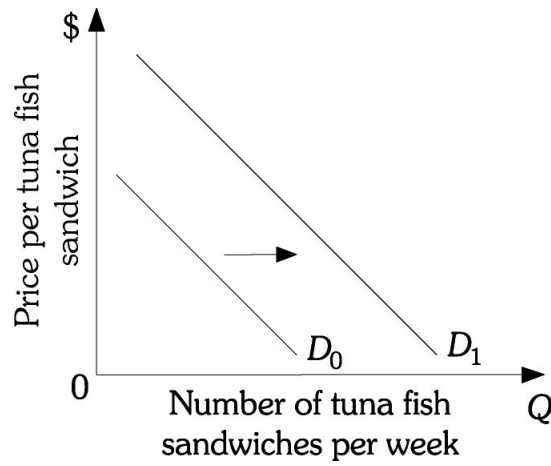


Figure 3.4

- 12) Refer to Figure 3.4. If consumer income increases, the demand for tuna fish sandwiches shifts from  $D_0$  to  $D_1$ . This implies that tuna fish sandwiches are a(n)
- A) normal good.
  - B) inferior good.
  - C) substitute good.
  - D) complementary good.

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in Figure 3.5 below to answer the questions that follow.

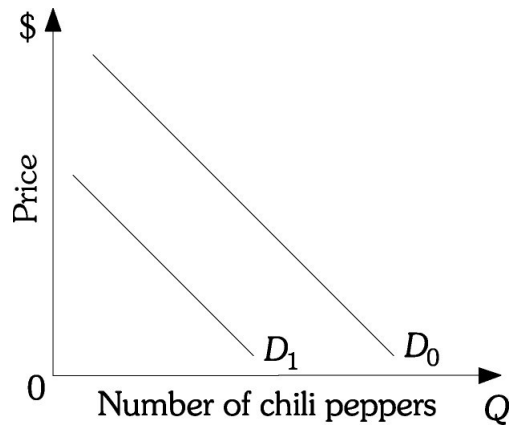


Figure 3.5

- 13) Refer to Figure 3.5. If consumer income decreases, the demand for chili peppers shifts from  $D_0$  to  $D_1$ . This implies that chili peppers are a(n)
- A) normal good.
  - B) inferior good.
  - C) substitute good.
  - D) complementary good.

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 14) Suppose the demand for lawnmowers goes down when the price of gasoline goes up. We can say that these two goods are
- A) complements.
  - B) substitutes.
  - C) unrelated goods.
  - D) perfect substitutes.

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 15) During an economic upturn when consumer income rises, the demand for caviar increases and the demand for hummus decreases. This implies that caviar
- A) and hummus are complements.
  - B) is a normal good and hummus is an inferior good.
  - C) is an inferior good and hummus is a normal good.
  - D) is an economic bad and hummus is an economic good.

Answer: B

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 16) A good whose demand is directly related to income is a(n)
- A) normal good.
  - B) inferior good.
  - C) regular good.
  - D) new good.

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Definition

- 17) In college you could barely afford to dine in restaurants. Now you earn \$80,000 a year. and dine out at least three times per week. We can safely conclude that you consider restaurant meals to be a(n)
- A) normal good.
  - B) inferior good.
  - C) substitute good.
  - D) complementary good.

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 18) For inferior goods, demand will fall when
- A) income increases.
  - B) income decreases.
  - C) price increases.
  - D) price decreases.

Answer: A

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Definition

- 19) When the increase in the price of one good causes the demand for another good to decrease, the goods are
- A) normal.
  - B) inferior.
  - C) substitutes.
  - D) complements.

Answer: D

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Definition

- 20) An increase in demand for laptop computers would likely be caused by
- A) an increase in the price of a substitute good.
  - B) an increase in the price of laptop computers.
  - C) an increase in the price of a complementary good.
  - D) a decrease in the price of laptop computers.

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 21) Demand for one item goes down when the price of another item goes down. These items must be
- A) substitutes.
  - B) complements.
  - C) normal goods.
  - D) inferior goods.

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Definition

- 22) In response to news reports that drinking a glass of red wine each day can reduce an individual's risk of heart disease, there will most likely be a(n)
- A) increase in the demand for red wine.
  - B) decrease in the supply of red wine.
  - C) increase in the supply of red wine.
  - D) increase in the quantity demanded of red wine.

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

23) \_\_\_\_\_ curves are derived while holding constant income, tastes, and the prices of other goods.

- A) Distribution
- B) Production
- C) Demand
- D) Supply

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

24) The quantity demanded of Coca Cola has increased. The best explanation for this is that

- A) the price of Pepsi has decreased.
- B) Coca Cola has instituted a new, successful advertising campaign.
- C) the price of Coca Cola has decreased.
- D) Coca Cola consumers had an increase in income.

Answer: C

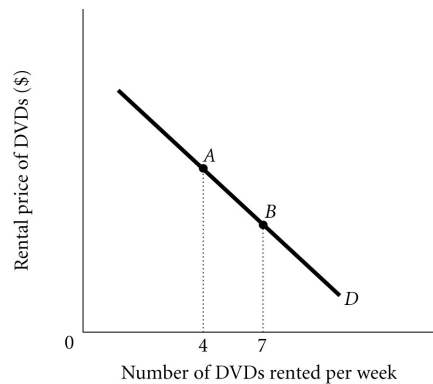
Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

*Refer to the information provided in Figure 3.6 below to answer the questions that follow.*



**Figure 3.6**

25) Refer to Figure 3.6. The number of DVDs Isabel rents per week decreases from 7 to 4. This is caused by

- A) a decrease in income if DVDs are a normal good.
- B) an increase in the price of popcorn which is a complement to DVDs.
- C) an increase in the rental price of DVDs.
- D) a decrease in the cable price of pay-per-view movies.

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

26) A change in the \_\_\_\_\_ of a good or service leads to a change in \_\_\_\_\_ that leads to a \_\_\_\_\_.

- A) supply; demand; change in price
- B) demand; quantity demanded; change in supply
- C) price; quantity demanded; movement along the demand curve
- D) quantity; supply; change in demand

Answer: C

Diff: 3

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

27) A change in \_\_\_\_\_ leads to a change in demand that causes a \_\_\_\_\_.

- A) income or price of other goods; shift in the demand curve
- B) income or price of other goods; movement along the demand curve
- C) the price of the original product; shift of the demand curve
- D) income or price of the original product; movement along the demand curve

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking



Refer to the information provided in Figure 3.7 below to answer the following questions.

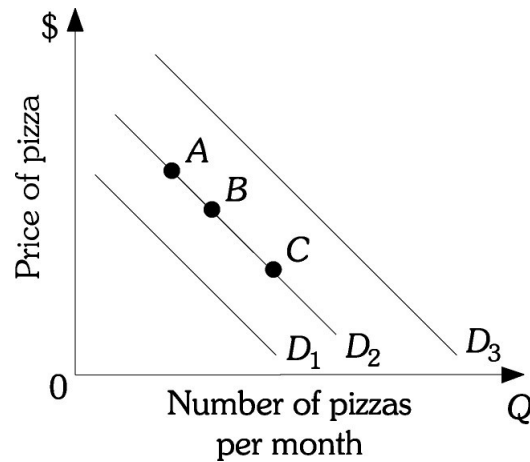


Figure 3.7

- 28) Refer to Figure 3.7. Assume the market is initially at Point B and that pizza is a normal good. An increase in income would cause the market to move from Point B on demand curve  $D_2$  to

A) Point A on demand curve  $D_2$ .  
B) Point C on demand curve  $D_2$ .  
C) demand curve  $D_1$ .  
D) demand curve  $D_3$ .

Answer: D

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 29) Refer to Figure 3.7. If pizza and beer are complementary goods, an increase in the price of beer will cause a movement from Point B on demand curve  $D_2$  to

A) demand curve  $D_1$ .  
B) demand curve  $D_3$ .  
C) Point A on demand curve  $D_2$ .  
D) Point C on demand curve  $D_2$ .

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

30) Refer to Figure 3.7. If pizza and burritos are substitutes, a decrease in the price of burritos will cause a movement from Point *B* on demand curve *D*<sub>2</sub> to

- A) demand curve *D*<sub>1</sub>.
- B) demand curve *D*<sub>3</sub>.
- C) Point *A* on demand curve *D*<sub>2</sub>.
- D) Point *C* on demand curve *D*<sub>2</sub>.

Answer: A

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

31) Refer to Figure 3.7. A movement from Point *A* to Point *B* on demand curve *D*<sub>2</sub> would be caused by a(n)

- A) decrease in income, assuming pizza is a normal good.
- B) decrease in the price of burritos, assuming that pizza and burritos are substitutes.
- C) decrease in the price of pizza.
- D) increase in the price of pizza.

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

32) Refer to Figure 3.7. An increase in demand is represented by the movement

- A) from *D*<sub>2</sub> to *D*<sub>1</sub>.
- B) from *D*<sub>2</sub> to *D*<sub>3</sub>.
- C) along *D*<sub>2</sub> from Point *B* to Point *A*.
- D) along *D*<sub>2</sub> from Point *B* to Point *C*.

Answer: B

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

33) Refer to Figure 3.7. A decrease in quantity demanded is represented by movement

- A) from *D*<sub>2</sub> to *D*<sub>1</sub>.
- B) from *D*<sub>2</sub> to *D*<sub>3</sub>.
- C) along *D*<sub>2</sub> from Point *B* to Point *A*.
- D) along *D*<sub>2</sub> from Point *B* to Point *C*.

Answer: C

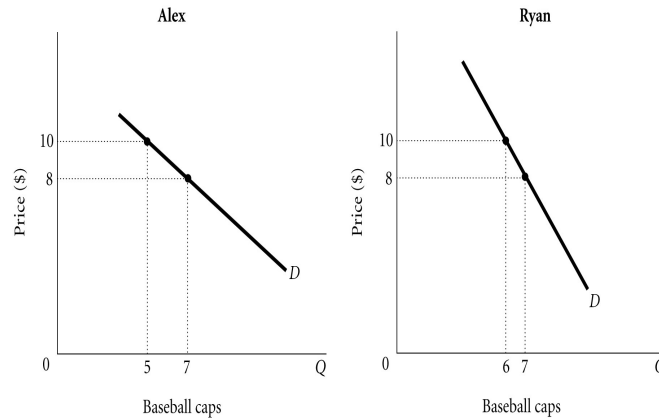
Diff: 2

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 3.8 below to answer the following questions.



**Figure 3.8**

- 34) Refer to Figure 3.8. Assume that there are only two people in the market for baseball caps: Alex and Ryan. Along the \_\_\_\_\_ for baseball caps, at a price of \$10, quantity demanded would be 11.
- A) demand curve for Alex
  - B) demand curve for Ryan
  - C) market demand curve
  - D) none of the above

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 35) Refer to Figure 3.8. Assume there are only two people in the market for baseball caps: Alex and Ryan. Along the \_\_\_\_\_, at a price of \$8, quantity demanded would be 14.
- A) demand curve for Alex
  - B) demand curve for Ryan
  - C) market demand curve
  - D) none of the above

Answer: C

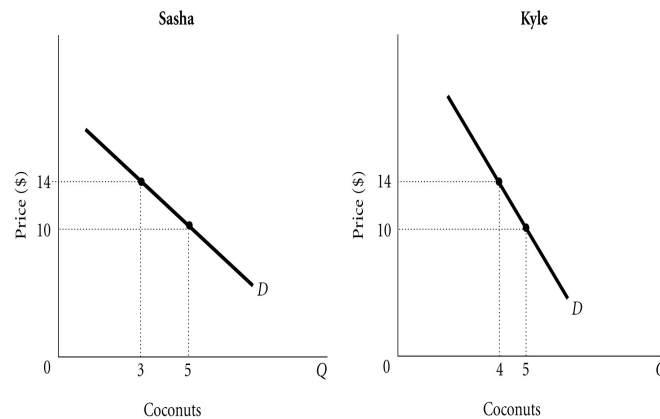
Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in Figure 3.9 below to answer the following questions.



**Figure 3.9**

- 36) Refer to Figure 3.9. Assume that there are only two people in the market for coconuts: Sasha and Kyle. Along the \_\_\_\_\_ for coconuts, at a price of \$14, quantity demanded would be 7.
- A) demand curve for Sasha
  - B) demand curve for Kyle
  - C) market demand curve
  - D) none of the above

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 37) Refer to Figure 3.9. Assume there are only two people in the market for coconuts: Sasha and Kyle. Along the \_\_\_\_\_, at a price of \$10, quantity demanded would be 10.
- A) demand curve for Sasha
  - B) demand curve for Kyle
  - C) market demand curve
  - D) none of the above

Answer: C

Diff: 2

Topic: Demand in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

*Refer to Scenario 3.1 below to answer the following questions.*

SCENARIO 3.1: Rented DVDs and movies shown in theaters are substitutes. Rented DVDs and plasma TVs are complements. Plasma TVs and movies shown in theaters are normal goods.

- 38) Refer to Scenario 3.1. Most plasma TVs sold in the United States are imported from Japan. If the United States government reduces the number of plasma TVs that can be imported into the United States, *ceteris paribus*, what would happen?

- A) The price of plasma TVs and the rental price of DVDs would increase.
- B) The price of plasma TVs and the rental price of DVDs would decrease.
- C) The price of plasma TVs would decrease and the rental price of DVDs would increase.
- D) The price of plasma TVs would increase and the rental price of DVDs would decrease.

Answer: D

Diff: 3

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 39) Refer to Scenario 3.1. In response to complaints from movie theater owners, the government removes an entertainment tax on movie tickets, but there are no additional taxes levied on rented DVDs. This would lead to

- A) a decrease in the price of movie tickets, but no change in the rental price of DVDs.
- B) a decrease in the price of a movie ticket and an increase in the rental price of DVDs.
- C) a decrease in the price of movie tickets and the rental price of DVDs.
- D) no change in the price of a movie ticket and a decrease in the rental price of DVDs.

Answer: C

Diff: 3

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 40) Refer to Scenario 3.1. You observe that the rental price for DVDs is higher in the summer than in the winter. This would be explained by the fact that

- A) the quantity demanded of rented DVDs is higher in the summer than in the winter.
- B) there are more DVDs released into the rental market in the summer than in the winter.
- C) demand for rented DVDs is higher in the summer than in the winter.
- D) the supply of rented DVDs is higher in the summer than in the winter.

Answer: C

Diff: 3

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 41) Refer to Scenario 3.1. If the number of stores renting DVDs increases by 10%, which of the following would occur?
- A) The rental price of DVDs would increase and the price of plasma TVs and movie tickets would decrease.
  - B) The rental price of DVDs and the price of movie tickets would decrease, but the price of plasma TVs would increase.
  - C) The rental price of DVDs and the price of movie tickets would increase, but the price of plasma TVs would decrease.
  - D) The rental price of DVDs would increase, but the price of plasma TVs and movie tickets would be unaffected.

Answer: B

Diff: 3

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

## 2 True/False

- 1) Wealth is a stock measure.

Answer: TRUE

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 2) A change in the price of a good or service leads to a change in the demand of the good.

Answer: FALSE

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 3) Quantity demanded is determined by how much consumers are willing to pay for the good or service.

Answer: TRUE

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

- 4) Supply is determined by how much suppliers are willing and able to produce.

Answer: FALSE

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

5) Inferior goods are also known as substitute goods.

Answer: FALSE

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Conceptual

6) If french fries and ketchup are complements, then an increase in the price of french fries will result in an increase in the demand for ketchup.

Answer: FALSE

Diff: 1

Topic: Demand in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

### 3.4 Supply in Product / Output Markets

#### 1 Multiple Choice

1) According to the law of \_\_\_\_\_, there is a positive relationship between price and \_\_\_\_\_.

- A) supply; the change in supply
- B) supply; the quantity supplied
- C) demand; quantity demanded
- D) demand; change in demand

Answer: B

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Definition

2) The price of circuit boards used in the manufacturing of LCD televisions has fallen. This will lead to \_\_\_\_\_ LCD televisions.

- A) an increase in the supply of
- B) a decrease in the supply of
- C) an increase in the quantity supplied of
- D) a decrease in the quantity supplied of

Answer: A

Diff: 3

Topic: Supply in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

3) If the price of spinach decreases, there will be \_\_\_\_\_ of spinach enchiladas.

- A) an increase in the supply
- B) a decrease in the supply
- C) an increase in the quantity supplied
- D) a decrease in the quantity supplied

Answer: A

Diff: 3

Topic: Supply in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

4) An electronics manufacturer can produce either MP3 players or cell phones. As the result of a decrease in the price of cell phones, the firm produces more MP3 players and fewer cell phones. An economist would explain this by saying

- A) the supply of cell phones increased and the supply of MP3 players decreased.
- B) there has been an increase in the quantity supplied of cell phones and a decrease in the quantity supplied of MP3 players.
- C) there has been a decrease in the quantity supplied of cell phones and an increase in the supply of MP3 players.
- D) the supply of cell phones increased and the quantity supplied of MP3 players decreased.

Answer: C

Diff: 3

Topic: Supply in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking



Refer to the information provided in Figure 3.14 below to answer the following questions.

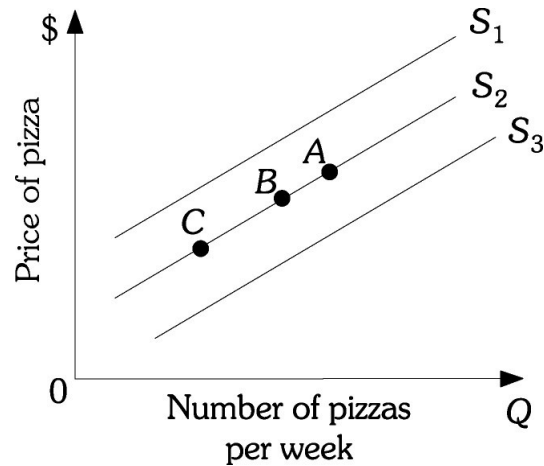


Figure 3.14

- 5) Refer to Figure 3.14. An increase in the wage rate of pizza makers will cause a movement from Point B on supply curve S<sub>2</sub> to
- A) Point A on supply curve S<sub>2</sub>.
  - B) Point B on supply curve S<sub>2</sub>.
  - C) supply curve S<sub>3</sub>.
  - D) supply curve S<sub>1</sub>.

Answer: D

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 6) Refer to Figure 3.14. A decrease in supply is represented by the movement from
- A) S<sub>2</sub> to S<sub>3</sub>.
  - B) S<sub>2</sub> to S<sub>1</sub>.
  - C) Point B to Point A along supply curve S<sub>2</sub>.
  - D) Point B to Point C along supply curve S<sub>2</sub>.

Answer: B

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 7) Refer to Figure 3.14. An increase in quantity supplied is represented by a movement from
- A)  $S_2$  to  $S_3$ .
  - B)  $S_2$  to  $S_1$ .
  - C) Point  $B$  to Point  $A$  along supply curve  $S_2$ .
  - D) Point  $B$  to Point  $C$  along supply curve  $S_2$ .

Answer: C

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 8) Refer to Figure 3.14. A decrease in the price of pizza sauce will cause a movement from Point  $B$  on supply curve  $S_2$  to
- A) supply curve  $S_3$ .
  - B) supply curve  $S_1$ .
  - C) Point  $A$  on supply curve  $S_2$ .
  - D) Point  $C$  on supply curve  $S_2$ .

Answer: A

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 9) Refer to Figure 3.14. A movement from Point  $C$  to Point  $B$  on supply curve  $S_2$  would be caused by a(n)
- A) decrease in the price of pizza.
  - B) decrease in the price of pizza dough.
  - C) increase in the demand for pizza.
  - D) increase in the price of hamburgers, assuming hamburgers are a substitute for pizza.

Answer: C

Diff: 3

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in Figure 3.15 below to answer the following questions.

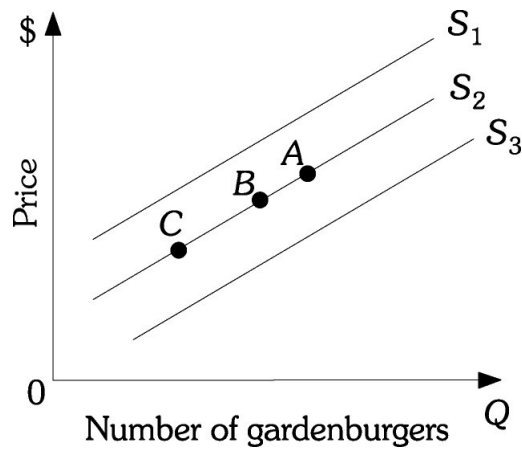


Figure 3.15

- 10) Refer to Figure 3.15. A decrease in the wage rate of gardenburger makers will cause a movement from Point B on supply curve  $S_2$  to
- A) Point A on supply curve  $S_2$ .
  - B) Point B on supply curve  $S_2$ .
  - C) supply curve  $S_3$ .
  - D) supply curve  $S_1$ .

Answer: C

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 11) Refer to Figure 3.15. An increase in supply is represented by the movement from
- A)  $S_2$  to  $S_3$ .
  - B)  $S_2$  to  $S_1$ .
  - C) Point B to Point A along supply curve  $S_2$ .
  - D) Point B to Point C along supply curve  $S_2$ .

Answer: A

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 12) Refer to Figure 3.15. A decrease in quantity supplied is represented by a movement from
- A)  $S_2$  to  $S_1$ .
  - B)  $S_2$  to  $S_3$ .
  - C) Point  $B$  to Point  $A$  along supply curve  $S_2$ .
  - D) Point  $B$  to Point  $C$  along supply curve  $S_2$ .

Answer: D

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 13) Refer to Figure 3.15. An increase in the price of tomatoes (an input for gardenburgers) will cause a movement from Point  $B$  on supply curve  $S_2$  to
- A) supply curve  $S_3$ .
  - B) supply curve  $S_1$ .
  - C) Point  $A$  on supply curve  $S_2$ .
  - D) Point  $C$  on supply curve  $S_2$ .

Answer: B

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 14) Refer to Figure 3.15. A movement from Point  $A$  to Point  $B$  on supply curve  $S_2$  would be caused by a(n)
- A) increase in the price of gardenburgers.
  - B) decrease in the demand for gardenburgers.
  - C) increase in the price of tomatoes.
  - D) increase in the price of hamburgers, assuming hamburgers are a substitute for pizza.

Answer: B

Diff: 3

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

15) The change in the \_\_\_\_\_ of a good leads to a change in \_\_\_\_\_, which leads to a \_\_\_\_\_.

- A) price; quantity supplied; movement along a supply curve
- B) quantity; supply; change in demand
- C) supply; demand; change in price
- D) demand; quantity demanded; supply

Answer: A

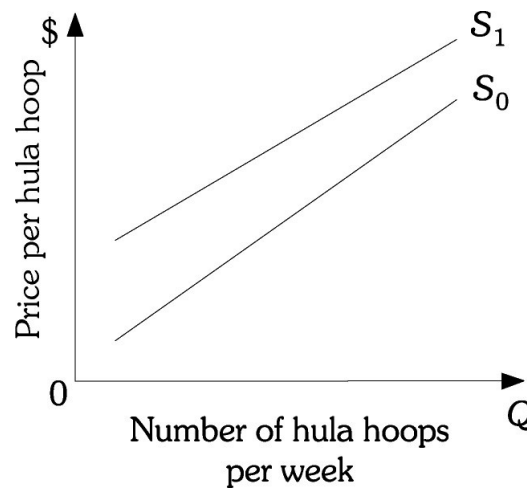
Diff: 3

Topic: Supply in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

*Refer to the information provided in Figure 3.16 below to answer the questions that follow.*



**Figure 3.16**

16) Refer to Figure 3.16. The supply of curve for hula hoops shifts from  $S_1$  to  $S_0$ . This could be caused by

- A) a decrease in the price of hula hoops.
- B) a decrease in the number of firms selling hula hoops.
- C) a decrease in the demand for hula hoops.
- D) a decrease in the cost of producing hula hoops.

Answer: D

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 3.11 below to answer the questions that follow.

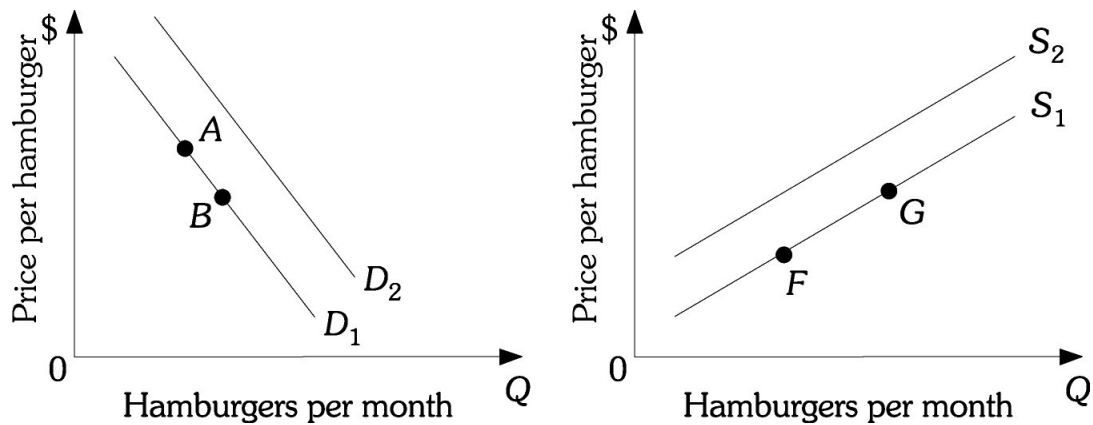


Figure 3.11

- 17) Refer to Figure 3.11. Assume hamburgers are a normal good. A decrease in income will cause a movement from
- A) Point A to Point B.
  - B) Point G to Point F.
  - C)  $D_2$  to  $D_1$ .
  - D)  $S_2$  to  $S_1$ .

Answer: C

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

- 18) Refer to Figure 3.11. Assume hamburgers and hot dogs are substitutes. An increase in the price of hot dogs will cause a movement from
- A) Point B to Point A.
  - B) Point F to Point G.
  - C)  $D_2$  to  $D_1$ .
  - D)  $D_1$  to  $D_2$ .

Answer: D

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

19) Refer to Figure 3.11. Assume hamburgers and french fries are complements. An increase in the price of french fries will cause a movement from

- A) Point *A* to Point *B*.
- B) Point *B* to Point *A*.
- C)  $D_2$  to  $D_1$ .
- D)  $D_1$  to  $D_2$ .

Answer: C

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

20) Refer to Figure 3.11. A decrease in the number of cattle ranchers will cause a movement from

- A) Point *A* to Point *B*.
- B) Point *G* to Point *F*.
- C)  $D_2$  to  $D_1$ .
- D)  $S_1$  to  $S_2$ .

Answer: D

Diff: 2

Topic: Supply in Product / Output Markets

Skill: Analytic

AACSB: Analytic Skills

## 2 True/False

1) A movement along the supply curve is caused by a change in a good's own price.

Answer: TRUE

Diff: 1

Topic: Supply in Product / Output Markets

Skill: Conceptual

2) A technological advance in the production of digital video recorders will cause them to become less expensive.

Answer: TRUE

Diff: 1

Topic: Supply in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

3) An increase in the wage rate of diamond cutters will increase the supply of cut diamonds.

Answer: FALSE

Diff: 1

Topic: Supply in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

4) Supply is determined by how much suppliers are willing and able to produce.

Answer: FALSE

Diff: 1

Topic: Supply in Product / Output Markets

Skill: Conceptual

AACSB: Reflective Thinking

### 3.5 Market Equilibrium

#### 1 Multiple Choice

1) When quantity demanded equals quantity supplied

A) there must be no government intervention in the market.

B) the demand curve must be the same as the supply curve.

C) the market is in equilibrium.

D) all of the above

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Definition

*Refer to the information provided in Table 3.1 below to answer the questions that follow.*

**Table 3.1**

Price per Pizza	Quantity Demanded (Pizzas per Month)	Quantity Supplied (Pizzas per Month)
\$3	1,200	600
6	1,000	700
9	800	800
12	600	900
15	400	1,000

2) Refer to Table 3.1. This market will be in equilibrium if the quantity of pizzas supplied per month is

A) 700.

B) 750.

C) 800.

D) 900.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills



- 3) Refer to Table 3.1. If the price per pizza is \$3, the price will
- A) remain constant because the market is in equilibrium.
  - B) increase because there is an excess supply in the market.
  - C) increase because there is an excess demand in the market.
  - D) decrease because there is an excess supply in the market.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 4) Refer to Table 3.1. If the price per pizza is \$6, there is a(n)
- A) excess supply of 1,000 units.
  - B) excess demand of 200 units.
  - C) excess demand of 300 units.
  - D) excess supply of 700 units.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 5) Refer to Table 3.1. If the price per pizza is \$12, there is an excess
- A) demand of 400 pizzas.
  - B) demand of 600 pizzas.
  - C) supply of 300 pizzas.
  - D) supply of 900 pizzas.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 6) Refer to Table 3.1. In this market there will be an excess demand of 600 pizzas at a price of
- A) \$3.
  - B) \$6.
  - C) \$12.
  - D) \$15.

Answer: A

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 7) Refer to Table 3.1. In this market there will be an excess supply of 600 pizzas at a price of
- A) \$3.
  - B) \$6.
  - C) \$12.
  - D) \$15.

Answer: D

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 8) Refer to Table 3.1. If the price per pizza is \$9, the price will
- A) remain constant because the market is in equilibrium.
  - B) increase because there is an excess demand in the market.
  - C) increase because there is an excess supply in the market.
  - D) decrease because there is an excess supply in the market.

Answer: A

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

*Refer to the information provided in Table 3.2 below to answer the questions that follow.*

**Table 3.2**

Price per Cheeseburger	Quantity Demanded (Cheeseburgers per Month)	Quantity Supplied (Cheeseburgers per Month)
\$5	1,500	500
6	1,200	700
7	900	900
8	600	1,100
9	300	1,300

- 9) Refer to Table 3.2. This market will be in equilibrium if the quantity of gardenburgers demanded is
- A) 300.
  - B) 600.
  - C) 900.
  - D) 1,200.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 10) Refer to Table 3.2. If the price per gardenburger is \$5, the price will
- A) remain constant because the market is in equilibrium.
  - B) decrease because there is an excess demand in the market.
  - C) increase because there is an excess demand in the market.
  - D) decrease because there is an excess supply in the market.

Answer: D

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 11) Refer to Table 3.2. If the price per gardenburger is \$6, there is a(n)
- A) market equilibrium.
  - B) excess demand of 1,000 units.
  - C) excess demand of 500 units.
  - D) excess supply of 700 units.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 12) Refer to Table 3.2. If the price per gardenburger is \$8, there is an excess
- A) demand of 600 gardenburgers.
  - B) supply of 500 gardenburgers.
  - C) demand of 300 gardenburgers.
  - D) supply of 1,100 gardenburgers.

Answer: A

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 13) Refer to Table 3.2. In this market there will be an excess demand of 500 gardenburgers at a price of
- A) \$5.
  - B) \$6.
  - C) \$7.
  - D) \$8.

Answer: B

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 14) Refer to Table 3.2. In this market there will be an excess supply of 1,000 gardenburgers at a price of
- A) \$5.
  - B) \$6.
  - C) \$7.
  - D) \$9.

Answer: D

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 15) Refer to Table 3.2. If the price per gardenburger is \$8, the price will
- A) remain constant because the market is in equilibrium.
  - B) decrease because there is an excess demand in the market.
  - C) increase because there is an excess supply in the market.
  - D) decrease because there is an excess supply in the market.

Answer: D

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 16) When there is an excess demand of a product in an unregulated market, the tendency is for
- A) price to rise.
  - B) price to decrease.
  - C) quantity supplied to decrease.
  - D) quantity demanded to increase.

Answer: A

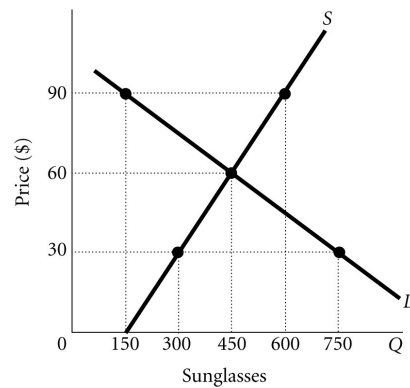
Diff: 2

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 3.17 below to answer the questions that follow.



**Figure 3.17**

17) Refer to Figure 3.17. The market for sunglasses \_\_\_\_\_ at a price of \$60 and a quantity of 450 sunglasses.

- A) has a surplus
- B) has a shortage
- C) is in equilibrium
- D) cannot remain in business

Answer: C

Diff: 1

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

18) Refer to Figure 3.17. At a quantity demanded of 750, there is an excess

- A) demand of 450 sunglasses if the price is \$60.
- B) demand of 450 sunglasses if the price is \$30.
- C) demand of 300 sunglasses if the price is \$60.
- D) supply of 300 sunglasses if the price is \$30.

Answer: B

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 19) Refer to Figure 3.17. If this market is unregulated and the price is currently \$30, you would expect that the price
- A) of sunglasses would remain at \$30, because firms would not want to increase the price.
  - B) of sunglasses would rise to \$90, so the firm could meet its excess demand.
  - C) of sunglasses would rise to \$60, where quantity demanded equals quantity supplied.
  - D) of sunglasses would rise, but the new price is indeterminate from the information provided.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 20) Refer to Figure 3.17. At a price of \$60, there is an excess

- A) demand of 150 sunglasses.
- B) supply of 300 sunglasses.
- C) demand of 300 sunglasses.
- D) supply of zero sunglasses.

Answer: D

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 21) When there is a surplus of a product in an unregulated market, there is a tendency for

- A) price to rise.
- B) price to fall.
- C) quantity demanded to increase.
- D) quantity supplied to decrease.

Answer: B

Diff: 2

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 22) If the market for blue tooth headsets is unregulated and is presently characterized by excess demand, you can accurately predict that price will

- A) increase, the quantity demanded will fall, and the quantity supplied will rise.
- B) increase, the quantity demanded will rise, and the quantity supplied will fall.
- C) decrease, the quantity demanded will rise, and the quantity supplied will fall.
- D) decrease, the quantity demanded will fall, and the quantity supplied will rise.

Answer: A

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

23) Cell phones and blue tooth headsets are complements. An increase in the price of blue tooth headsets would cause which of the following in the market for cell phones?

- A) The equilibrium price and quantity of cell phones would increase.
- B) The equilibrium price and quantity of cell phones would decrease.
- C) The equilibrium price of cell phones would increase and the equilibrium quantity would decrease.
- D) The equilibrium price of cell phones would decrease and the equilibrium quantity would increase.

Answer: B

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

24) Suppose that Palm Pilots are a normal good. If the income of Palm Pilot users decreases, you predict that in the market for Palm Pilots

- A) both equilibrium price and quantity will fall.
- B) both equilibrium price and quantity will increase.
- C) equilibrium price will increase and quantity will decrease.
- D) equilibrium price will fall but quantity will increase.

Answer: A

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 3.18 below to answer the questions that follow.

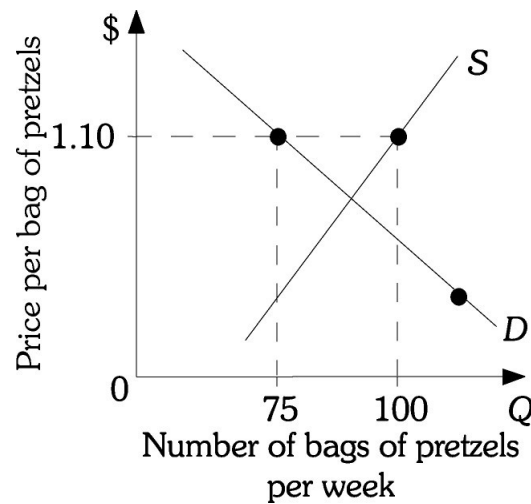


Figure 3.18

- 25) Refer to Figure 3.18. The current quantity of bags of pretzels supplied is 100. You accurately predict that in this market
- A) price tends to remain constant and quantity supplied increases.
  - B) price, quantity demanded, and quantity supplied decrease.
  - C) price and quantity supplied decrease and quantity demanded increases.
  - D) price and quantity demanded increase and quantity supplied decreases.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 26) When Hurricane Katrina hit Louisiana in 2005, approximately half of the sugar cane crop was destroyed. *Ceteris paribus*
- A) the demand for sugar decreased and the price of sugar decreased.
  - B) the supply of sugar decreased and the price of sugar increased.
  - C) the supply of sugar decreased and the price of sugar decreased.
  - D) the demand for sugar increased and the price of sugar increased.

Answer: B

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking



27) Bacon is used to produce bacon cheeseburgers, and the price of bacon decreases. In the market for bacon cheeseburgers you would expect that

- A) the demand for bacon cheeseburgers would increase and the price of bacon cheeseburgers would increase.
- B) the demand for bacon cheeseburgers would decrease and the price of bacon cheeseburgers would fall.
- C) the supply of bacon cheeseburgers would decrease and the price of bacon cheeseburgers would increase.
- D) the supply of bacon cheeseburgers would increase and the price of bacon cheeseburgers would decrease.

Answer: D

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

28) If increases in government regulations have increased the cost of producing gasoline-powered lawnmowers, you accurately predict that in the market for gasoline-powered lawnmowers, there will be a(n)

- A) decrease in the quantity supplied of gasoline-powered lawnmowers, a reduction in the price, and an increase in the quantity demanded.
- B) decrease in the supply of gasoline-powered lawnmowers, an increase in the price, and a decrease in the quantity demanded.
- C) decrease in the supply of gasoline-powered lawnmowers, an increase in the price, and a decrease in the demand.
- D) increase in the supply of gasoline-powered lawnmowers, an increase in the price, and a decrease in the demand.

Answer: B

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

29) Which of the following will definitely occur when there is a simultaneous increase in demand and an increase in supply?

- A) an increase in equilibrium price
- B) a decrease in equilibrium price
- C) an increase in equilibrium quantity
- D) a decrease in equilibrium quantity

Answer: C

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

30) A movement along the demand curve to the right may be caused by a(n)

- A) decrease in income.
- B) increase in supply.
- C) fall in the number of substitute goods.
- D) rise in the price of inputs.

Answer: B

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

31) Which of the following will definitely occur when there is a decrease in the supply of and an increase in demand for wireless speakers?

- A) an increase in equilibrium price
- B) a decrease in equilibrium price
- C) an increase in equilibrium quantity
- D) a decrease in equilibrium quantity

Answer: A

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

32) Which of the following will definitely occur when there is a decrease in demand for and an increase in supply of potato chips?

- A) an increase in equilibrium price
- B) a decrease in equilibrium price
- C) an increase in equilibrium quantity
- D) a decrease in equilibrium quantity

Answer: B

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 33) A new fertilizer which greatly improves the corn crop yield is being widely used by corn farmers. You accurately predict that this
- A) will shift the supply curve of corn to the right, the equilibrium price of corn will increase, and the demand for corn will fall.
  - B) will shift the supply curve of corn to the right, the equilibrium price of corn will decrease, and the quantity demanded of corn will increase.
  - C) will shift the supply curve of corn to the left, the equilibrium price of corn will increase, and the quantity demanded of corn will decrease.
  - D) will shift the supply curve of corn to the left, the equilibrium price of corn will increase, and the demand for corn will fall.

Answer: B

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 34) Pineapples and kumquats are substitute goods. A hurricane in Guatemala destroyed a good portion of the pineapple crop. *Ceteris paribus*
- A) the price of both pineapples and kumquats will increase.
  - B) the price of both pineapples and kumquats will fall.
  - C) the price of kumquats will increase and the price of pineapples will fall.
  - D) the price of kumquats will fall and the price of pineapples will increase.

Answer: A

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 3.19 below to answer the questions that follow.

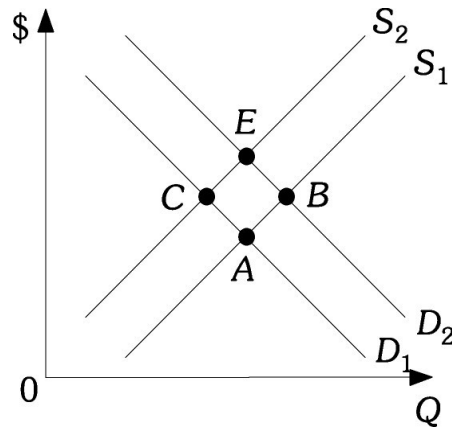


Figure 3.19

- 35) Refer to Figure 3.19. When the economy moves from Point C to Point A, there has been
- A) an increase in demand and an increase in supply.
  - B) an increase in demand and an increase in quantity supplied.
  - C) an increase in quantity demanded and a decrease in supply.
  - D) an increase in quantity demanded and an increase in supply.

Answer: D

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 36) Refer to Figure 3.19. When the economy moves from Point C to Point E, there has been
- A) a decrease in supply and a decrease in quantity demanded.
  - B) a decrease in quantity supplied and a decrease in demand.
  - C) an increase in supply and an increase in quantity demanded.
  - D) an increase in demand and an increase in quantity supplied.

Answer: D

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 37) Refer to Figure 3.19. When the economy moves from Point C to Point B, there has been
- A) an increase in demand and an increase in supply.
  - B) a decrease in demand and a decrease in supply.
  - C) an increase in demand and a decrease in supply.
  - D) an increase in quantity demanded and an increase in quantity supplied.

Answer: A

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 38) Refer to Figure 3.19. When the economy moves from Point *B* to Point *A*, there has been
- A) an increase in supply and a decrease in quantity demanded.
  - B) a decrease in both supply and demand.
  - C) a decrease in demand and a decrease in quantity supplied.
  - D) a decrease in supply and an decrease in quantity demanded.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

*Refer to Scenario 3.2 below to answer the questions that follow.*

SCENARIO 3.2: Mustard and mayonnaise are substitutes. Mustard and relish are complements. Mustard is a normal good. During the summer, about 50% of all mustard was recalled by manufacturers and removed from store shelves.

- 39) Refer to Scenario 3.2. As a result of the recall, you would expect that
- A) the supply of mustard would decrease, the price of mustard would increase, and the demand for mustard would decrease.
  - B) the price of mustard would increase, the supply of mustard would increase, and the quantity demanded of mustard would decrease.
  - C) the supply of mustard would decrease, the price of mustard would increase, and the quantity demanded of mustard would decrease.
  - D) the price of mustard would increase and both the quantity of mustard supplied and the quantity of mustard demanded would increase.

Answer: C

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 40) Refer to Scenario 3.2. The mustard recall would have caused the equilibrium price of mayonnaise to \_\_\_\_\_ and the equilibrium quantity of mayonnaise to \_\_\_\_\_.
- A) increase; increase
  - B) increase; decrease
  - C) decrease; increase
  - D) decrease; decrease

Answer: A

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

41) Refer to Scenario 3.2. The mustard recall would have caused

- A) an increase in the demand for relish.
- B) an increase in the quantity demanded of relish.
- C) a decrease in the demand for relish.
- D) a decrease in the quantity demanded of relish.

Answer: C

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

42) Refer to Scenario 3.2. If at the same time of the mustard recall, consumer income also decreased. Then, *ceteris paribus*, in the market for mustard this would have caused

- A) both the equilibrium price and quantity to decrease.
- B) the equilibrium price to increase and the equilibrium quantity to decrease.
- C) the equilibrium price to either increase, decrease, or remain the same and the equilibrium quantity to decrease.
- D) the equilibrium quantity could have increased, decreased, or remained the same and the equilibrium price to decrease.

Answer: C

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

43) Refer to Scenario 3.2. The government wants to protect consumers from rising food prices. Therefore, price restrictions are imposed on mustard producers, prohibiting them from raising the price of mustard. This will cause

- A) an excess demand for mustard.
- B) an excess supply of mustard.
- C) an increase in the demand for mustard.
- D) a decrease in the supply of mustard.

Answer: A

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 3.10 below to answer the questions that follow.

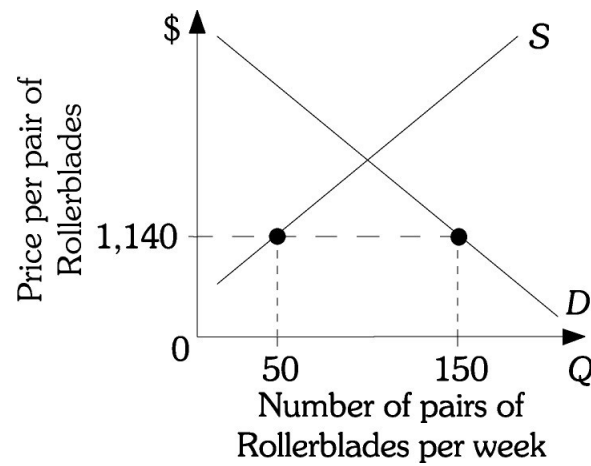


Figure 3.10

- 44) Refer to Figure 3.10. If the current quantity demanded of rollerblades is 150 per week, you accurately predict that in this market
- A) price and quantity supplied will increase and quantity demanded will decrease.
  - B) price and quantity supplied will decrease and quantity demanded will increase.
  - C) price, quantity supplied and quantity demanded will increase.
  - D) price, quantity supplied and quantity demanded will decrease.

Answer: A

Diff: 3

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in Figure 3.12 below to answer the questions that follow.

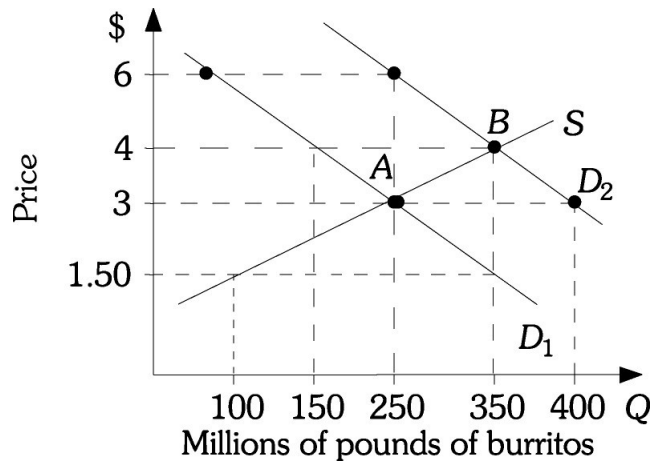


Figure 3.12

- 45) Refer to Figure 3.12. The market is initially in equilibrium at Point A. If demand shifts from  $D_1$  to  $D_2$  and there is an excess demand of 150 million pounds of burritos, the price of burritos would be

A) \$1.50.  
 B) \$3.00.  
 C) \$4.00.  
 D) \$6.00.

Answer: B

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 46) Refer to Figure 3.12. The market is initially in equilibrium at Point B. If demand shifts from  $D_2$  to  $D_1$  and there is an excess supply of 200 million pounds of burritos, the price of burritos would be

A) \$1.50.  
 B) \$3.00.  
 C) \$4.00.  
 D) \$6.00.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills



47) Refer to Figure 3.12 The market is initially in equilibrium at Point A. If demand shifts from  $D_1$  to  $D_2$ , the equilibrium price will change from \_\_\_\_\_ and the equilibrium quantity will change from \_\_\_\_\_.

- A) \$4.00 to \$3.00; 250 to 350
- B) \$4.00 to \$3.00; 350 to 250
- C) \$3.00 to \$4.00; 250 to 350
- D) \$3.00 to \$4.00; 350 to 250

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

48) Refer to Figure 3.12 The market is initially in equilibrium at Point B. If demand shifts from  $D_2$  to  $D_1$ , the equilibrium price will change from \_\_\_\_\_ and the equilibrium quantity will change from \_\_\_\_\_.

- A) \$4.00 to \$3.00; 250 to 350
- B) \$4.00 to \$3.00; 350 to 250
- C) \$3.00 to \$4.00; 250 to 350
- D) \$3.00 to \$4.00; 350 to 250

Answer: B

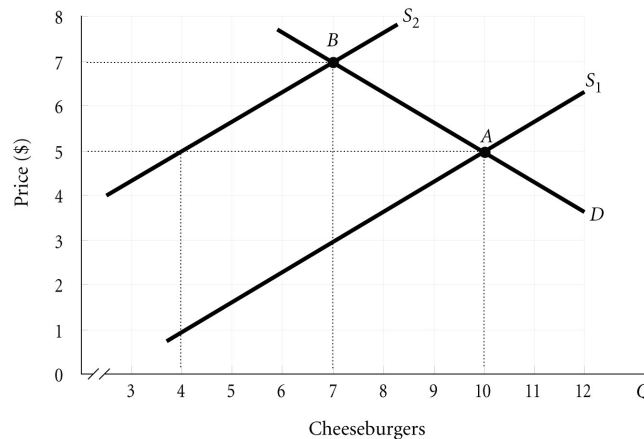
Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in Figure 3.13 below to answer the questions that follow.



**Figure 3.13**

- 49) Refer to Figure 3.13. The market is initially in equilibrium at Point A. If supply shifts from  $S_1$  to  $S_2$  and there is an excess demand of 6 cheeseburgers, the price of cheeseburgers will have
- A) moved from \$5.00 to \$7.00.
  - B) moved from \$7.00 to \$5.00.
  - C) remained constant at \$5.00.
  - D) remained constant at \$7.00.

Answer: C

Diff: 2

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

- 50) Refer to Figure 3.13. The market is initially in equilibrium at Point A. If supply shifts from  $S_1$  to  $S_2$ , the equilibrium price will change from \_\_\_\_\_ and the equilibrium quantity will change from \_\_\_\_\_.
- A) \$5.00 to \$7.00; 10 to 7.
  - B) \$5.00 to \$7.00; 4 to 7.
  - C) \$7.00 to \$5.00; 7 to 4.
  - D) \$7.00 to \$5.00; 7 to 10.

Answer: A

Diff: 1

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

51) Refer to Figure 3.13. The market is initially in equilibrium at Point B. If supply shifts from  $S_2$  to  $S_1$ , the equilibrium price will change from \_\_\_\_\_ and the equilibrium quantity will change from \_\_\_\_\_.

- A) \$5.00 to \$7.00; 10 to 7.
- B) \$5.00 to \$7.00; 4 to 7.
- C) \$7.00 to \$5.00; 7 to 4.
- D) \$7.00 to \$5.00; 7 to 10.

Answer: D

Diff: 1

Topic: Market Equilibrium

Skill: Analytic

AACSB: Analytic Skills

52) Related to the *Economics in Practice* on p. 67: The freezing weather in California caused the \_\_\_\_\_ curve for oranges to shift to the \_\_\_\_\_, increasing the equilibrium price and decreasing the equilibrium quantity of oranges.

- A) supply; right
- B) demand; right
- C) supply; left
- D) demand; left

Answer: C

Diff: 2

Topic: Market Equilibrium: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

53) Related to the *Economics in Practice* on p. 67: The freezing weather in California decreased the supply of oranges. This would \_\_\_\_\_ apple juice, a substitute for orange juice.

- A) increase the supply of
- B) increase the demand for
- C) decrease the supply of
- D) decrease the demand for

Answer: B

Diff: 2

Topic: Market Equilibrium: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

54) Related to the *Economics in Practice* on p. 69: One explanation for the increase in the price of the Baltimore newspaper is the new, increased regard the citizens of Baltimore have for newspapers. This would cause the \_\_\_\_\_ Baltimore newspapers to \_\_\_\_\_.

- A) demand for; increase
- B) quantity demanded of; increase
- C) demand for; decrease
- D) quantity demanded of; decrease

Answer: A

Diff: 2

Topic: Market Equilibrium: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

55) Related to the *Economics in Practice* on p. 69: Assuming the demand for Baltimore newspapers increases while the supply of Baltimore newspapers decreases, the equilibrium \_\_\_\_\_ will definitely \_\_\_\_\_.

- A) price; increase
- B) price; decrease
- C) quantity; increase
- D) quantity; decrease

Answer: A

Diff: 2

Topic: Market Equilibrium: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

## 2 True/False

1) A decrease in demand for a product will cause the price of the product to rise and supply of the product to increase.

Answer: FALSE

Diff: 1

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

2) A simultaneous increase in both the supply of and the demand for vitamin water would cause an increase in the equilibrium quantity of vitamin water.

Answer: TRUE

Diff: 3

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

- 3) If price is below the equilibrium, then quantity supplied will be less than quantity demanded putting upward pressure on price.

Answer: TRUE

Diff: 1

Topic: Market Equilibrium

Skill: Conceptual

AACSB: Reflective Thinking

***Principles of Microeconomics, 9e - Test Item File 2 (Case/Fair/Oster)***  
**Chapter 4 Demand and Supply Applications**

**4.1 The Price System: Rationing and Allocating Resources**

**1 Multiple Choice**

- 1) In the short run, it is necessary to \_\_\_\_\_ a good whenever excess demand exists.
- A) nonprice ration
  - B) price allocate
  - C) discontinue distribution of
  - D) increase production of

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 2) Issuing coupons, waiting in line and catering to favored customers are all methods of
- A) unbiased favoritism.
  - B) exploiting wealth.
  - C) income distribution.
  - D) nonprice rationing.

Answer: D

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 3) The \_\_\_\_\_ automatically distributes scarce goods.
- A) price system
  - B) barter system
  - C) laissez faire economy
  - D) command economy

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

- 4) Attempts to bypass price rationing in the market
- A) are costly.
  - B) are easily administered.
  - C) are efficient.
  - D) are an effective tool for aiding low-income households.

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

5) During periods of \_\_\_\_\_, favored customers receive special treatment from dealers.

- A) excess supply
- B) excess demand
- C) price above equilibrium
- D) equilibrium

Answer: B

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Definition

6) A situation where illegal trading at market prices takes place is known in economics as a

- A) smuggler's market.
- B) pirate market.
- C) black market.
- D) command market.

Answer: C

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Definition

7) When supply is \_\_\_\_\_ or the product is \_\_\_\_\_, then price is demand determined.

- A) fixed; unique
- B) variable; standardized
- C) fixed; standardized
- D) variable; unique

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

8) A government-imposed maximum price will have no economic impact if

- A) it is below the equilibrium price.
- B) it is at or below the equilibrium price.
- C) it is above the equilibrium price.
- D) there is a fixed supply of the good.

Answer: C

Diff: 1

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 9) If Leonardo is scalping tickets for a World Cup game, he will be successful at selling the tickets for a profit
- A) when prices are too high.
  - B) only when there is excess supply.
  - C) any time teams in the World Cup game are popular.
  - D) when the price set by the World Cup organizers is less than the market equilibrium price.

Answer: D

Diff: 1

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 10) If Andrew is scalping tickets for the Stanley Cup, he will be successful at selling the tickets for a profit
- A) when the price set by the National Hockey League is less than the market equilibrium price.
  - B) when prices are too high.
  - C) any time the Stanley Cup is popular.
  - D) only when there is excess supply.

Answer: A

Diff: 1

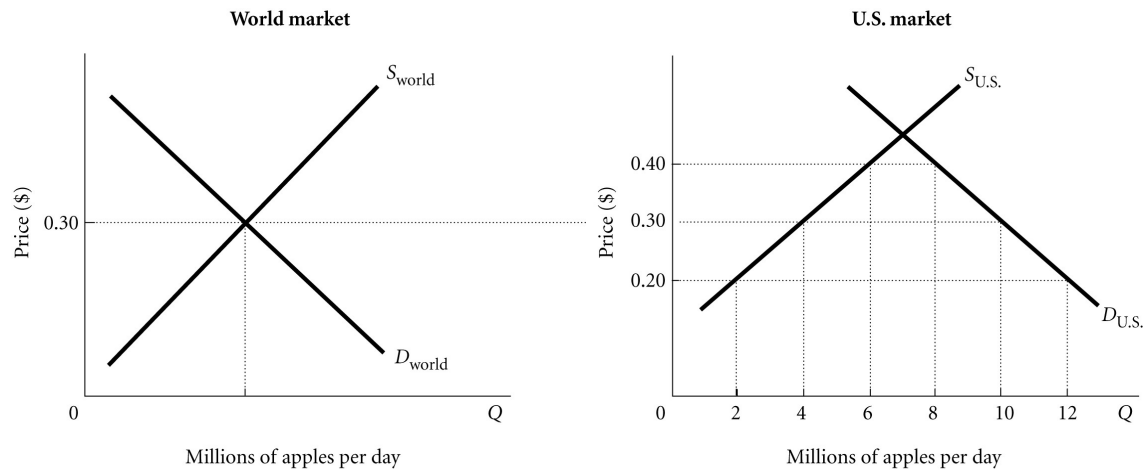
Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking



Refer to the information provided in Figure 4.1 below to answer the questions that follow.



**Figure 4.1**

- 11) Refer to Figure 4.1. At the world price of 30 cents per apple the United States imports \_\_\_\_\_ million apples per day.

A) 2  
B) 4  
C) 6  
D) 10

Answer: C

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

- 12) Refer to Figure 4.1. The United States will import 2 million apples per day if a per-apple tax of \_\_\_\_\_ is levied on imported apples.

A) 10 cents  
B) 20 cents  
C) 30 cents  
D) 40 cents

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

13) Refer to Figure 4.1. The United States will import 6 million apples per day if a per-apple tax of \_\_\_\_\_ is levied on imported apples.

- A) 0 cents
- B) 10 cents
- C) 20 cents
- D) 30 cents

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

14) Refer to Figure 4.1. Assume that initially there is free trade. The price of apples in the United States will increase to 40 cents per apple if a \_\_\_\_\_ per apple tax is imposed.

- A) 10 cents
- B) 20 cents
- C) 30 cents
- D) 40 cents

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

15) Refer to Figure 4.1. Assume that initially there is free trade. The quantity demanded of apples will be reduced by 2 million per day if the United States imposes a tax of \_\_\_\_\_ per apple.

- A) 10 cents
- B) 20 cents
- C) 30 cents
- D) 40 cents

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in Figure 4.2 below to answer the questions that follow.

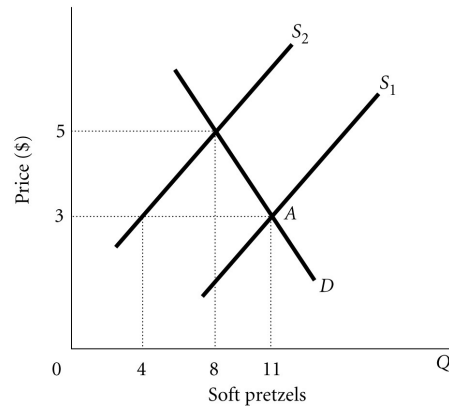


Figure 4.2

- 16) Refer to Figure 4.2. The market is initially in equilibrium at the intersection of  $S_2$  and  $D$ , and supply shifts from  $S_2$  to  $S_1$ . Which of the following statements is *true*?
- A) Price will still serve as a rationing device causing quantity demanded to rise from 8 to 11 soft pretzels.
  - B) There is no need for price to serve as a rationing device in this case because the new equilibrium quantity is lower than the original equilibrium quantity.
  - C) Price will still serve as a rationing device causing quantity supplied to fall from 8 to 4 soft pretzels.
  - D) The market cannot move to a new equilibrium until there is also a change in supply.

Answer: A

Diff: 1

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

- 17) An example of an effective price ceiling would be the government setting the price of wheat at \_\_\_\_\_ per bushel when the market price is at \$4.25 per bushel.
- A) \$3.75
  - B) \$5.00
  - C) \$7.75
  - D) \$12.00

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

18) If the equilibrium price of gasoline is \$3.00 per gallon and the government will not allow oil companies to charge more than \$2.00 per gallon of gasoline, which of the following will happen?

- A) The market will be in equilibrium at a price of \$2.00.
- B) Supply must eventually increase so that the market will come into equilibrium at a price of \$2.00.
- C) Demand must eventually decrease so that the market will come into equilibrium at a price of \$2.00.
- D) A nonprice rationing system such as ration coupons must be used to ration the available supply of gasoline.

Answer: D

Diff: 1

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

19) An example of a \_\_\_\_\_ would be the government setting the price of coffee below the equilibrium price.

- A) non-income tax
- B) rational expenditure
- C) black market
- D) price ceiling

Answer: D

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

20) If the market price of green tea is \$20.00 per pound but the government will not allow green tea growers to charge more than \$15.00 per pound of green tea, which of the following will happen?

- A) Demand must eventually decrease so that the market will come into equilibrium at a price of \$17.50.
- B) There will be a shortage of green tea.
- C) Supply must eventually increase so that the market will come into equilibrium at a price of \$17.50.
- D) There will be a surplus of green tea.

Answer: B

Diff: 3

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 21) In the short run, whenever excess demand exists, it is necessary to
- A) ration the good.
  - B) put the good on sale.
  - C) increase the supply of the good.
  - D) impose a price ceiling on the good.

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 22) The rationing mechanism in market economies is the adjustment of
- A) supply.
  - B) demand.
  - C) quantity.
  - D) price.

Answer: D

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Definition

- 23) An effective price ceiling must be set
- A) above the equilibrium price.
  - B) below the equilibrium price.
  - C) at the equilibrium price.
  - D) either at or above the equilibrium price.

Answer: B

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Definition

- 24) An effective price floor must be set
- A) above the equilibrium price.
  - B) below the equilibrium price.
  - C) at the equilibrium price.
  - D) either at or below the equilibrium price.

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Definition

- 25) For a particular product, an effective price ceiling results in
- A) quantity demanded greater than quantity supplied.
  - B) quantity supplied greater than quantity demanded.
  - C) quantity demanded equal to quantity supplied.
  - D) demand equal to supply.

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 26) For a particular product, an effective price floor results in
- A) quantity demanded greater than quantity supplied.
  - B) quantity supplied greater than quantity demanded.
  - C) quantity demanded equal to quantity supplied.
  - D) demand equal to supply.

Answer: B

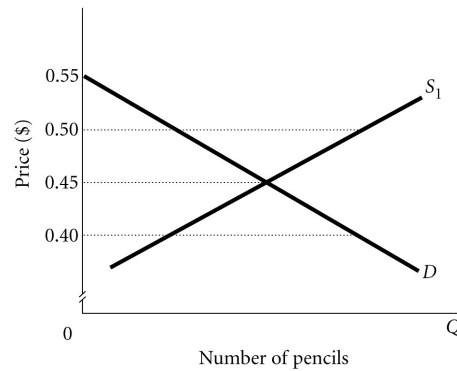
Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 4.3 below to answer the questions that follow.



**Figure 4.3**

- 27) Refer to Figure 4.3. The government setting the price of pencils at \$0.40 would be an example of an effective
- A) price floor.
  - B) price ceiling.
  - C) market equilibrium.
  - D) price surplus.

Answer: B

Diff: 1

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

- 28) Refer to Figure 4.3. The government setting the price of pencils at \$0.50 would be an example of an effective
- A) price floor.
  - B) price ceiling.
  - C) market equilibrium.
  - D) price shortage.

Answer: A

Diff: 1

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

- 29) Refer to Figure 4.3. In the market for pencils, the quantity demanded will be greater than the quantity supplied if the government imposes an effective
- A) price floor.
  - B) price ceiling.
  - C) market equilibrium price.
  - D) price surplus.

Answer: B

Diff: 1

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 30) Refer to Figure 4.3. A non-price rationing system such as queuing must be used to ration the available supply of pencils if the government will not allow retailers to charge more than \_\_\_\_\_ for a pencil.

- A) \$0.40
- B) \$0.45
- C) \$0.50
- D) \$0.55

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

- 31) Refer to Figure 4.3. Retailers will have an excess supply of pencils if the government will not allow retailers to charge less than \_\_\_\_\_ for a pencil.

- A) \$0.50
- B) \$0.45
- C) \$0.40
- D) the equilibrium price

Answer: A

Diff: 1

Topic: The Price System: Rationing and Allocating Resources

Skill: Analytic

AACSB: Analytic Skills

- 32) A shortage will occur if a \_\_\_\_\_ is set \_\_\_\_\_ the equilibrium price.

- A) price floor; below
- B) price floor; above
- C) price ceiling; above
- D) price ceiling; below

Answer: D

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking



33) The market will be in equilibrium if \_\_\_\_\_ is set \_\_\_\_\_ the equilibrium price.

- A) a price floor; below
- B) a price ceiling; below
- C) actual price; above
- D) actual price; below

Answer: A

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

34) Quantity demanded will equal quantity supplied if a \_\_\_\_\_ is set \_\_\_\_\_ the equilibrium price.

- A) price ceiling; above
- B) price ceiling; below
- C) price floor; above
- D) price ceiling, at or below

Answer: A

Diff: 3

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

35) A surplus will occur if a \_\_\_\_\_ is set \_\_\_\_\_ the equilibrium price.

- A) price floor; below
- B) price floor; above
- C) price ceiling; above
- D) price ceiling; below

Answer: B

Diff: 1

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

36) The government imposes a maximum price on apartments that is BELOW the equilibrium price. You accurately predict that

- A) the law will have no economic impact.
- B) the law will create a surplus of apartments.
- C) renters will find that landlords start offering to furnish the apartments.
- D) landlords are less likely to do routine maintenance work in the apartments.

Answer: D

Diff: 3

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

37) The type of non-price rationing that most closely approaches the market outcome is

- A) favored customer rationing.
- B) first-come, first-served basis or queuing.
- C) coupon rationing with coupons that can be resold.
- D) coupon rationing with coupons that cannot be resold.

Answer: C

Diff: 3

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

38) The government imposes a price ceiling on heating oil that is below the market price. The rationing scheme that will minimize the misallocation of resources would be

- A) using rationing coupons that cannot be resold.
- B) using rationing coupons that can be resold.
- C) using rationing on a first-come, first-served basis.
- D) using rationing only on weekdays.

Answer: B

Diff: 3

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

39) The government imposes a price floor on wheat that is below the market price. You are asked to suggest a rationing scheme that will minimize the misallocation of resources. You suggest

- A) using rationing coupons that cannot be resold.
- B) using rationing coupons that can be resold.
- C) using a queuing system to compensate for the excess demand.
- D) that no rationing system will be necessary.

Answer: D

Diff: 3

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

40) Laura is scalping tickets for a Laker's game. She can sell her tickets for at least a normal profit

- A) when prices are too high.
- B) any time the Lakers are popular.
- C) when the price set by the Lakers is less than the market equilibrium price.
- D) only when there is excess supply.

Answer: C

Diff: 3

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

41) Related to the *Economics in Practice* on p. 79: The true cost of the *Shakespeare in the Park* tickets is

- A) zero.
- B) \$0 plus the opportunity cost of the time spent in line.
- C) the cost to put on the performance.
- D) the additional cost to the city of extra security.

Answer: B

Diff: 2

Topic: The Price System: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

42) Related to the *Economics in Practice* on p. 79: The initial price of \$0 for the *Shakespeare in the Park* tickets is akin to the city of New York \_\_\_\_\_ the tickets.

- A) issuing a price floor on
- B) issuing a price ceiling on
- C) issuing ration coupons for
- D) assigning favored customer status for

Answer: B

Diff: 2

Topic: The Price System: Economics in Practice

Skill: Conceptual

AACSB: Reflective Thinking

## 2 True/False

1) Goods are allocated in a market system by nonprice rationing.

Answer: FALSE

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

2) In the short run, nonprice rationing will happen whenever there is excess demand in a market.

Answer: TRUE

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

3) When supply is fixed, price is demand determined.

Answer: TRUE

Diff: 2

Topic: The Price System: Rationing and Allocating Resources

Skill: Conceptual

AACSB: Reflective Thinking

- 4) With nonprice rationing those who are both able and willing to pay for a product necessarily get the product.  
Answer: FALSE  
Diff: 2  
Topic: The Price System: Rationing and Allocating Resources  
Skill: Conceptual  
AACSB: Reflective Thinking
- 5) Establishing a list of favored customers is an alternative rationing mechanism to price rationing.  
Answer: TRUE  
Diff: 2  
Topic: The Price System: Rationing and Allocating Resources  
Skill: Conceptual
- 6) A surplus exists when there is excess demand in a market.  
Answer: FALSE  
Diff: 1  
Topic: The Price System: Rationing and Allocating Resources  
Skill: Definition
- 7) In a "black market", goods are traded at the same prices as they would be in a normal market.  
Answer: FALSE  
Diff: 2  
Topic: The Price System: Rationing and Allocating Resources  
Skill: Conceptual
- 8) Queuing is a system of nonprice rationing.  
Answer: TRUE  
Diff: 2  
Topic: The Price System: Rationing and Allocating Resources  
Skill: Definition
- 9) Ration coupons are tickets or coupons that give someone a right to purchase a certain amount of a product during a specific period of time.  
Answer: TRUE  
Diff: 2  
Topic: The Price System: Rationing and Allocating Resources  
Skill: Definition

## 4.2 Supply and Demand Analysis

### 1 Multiple Choice

Refer to the information provided in Figure 4.4 below to answer the questions that follow.

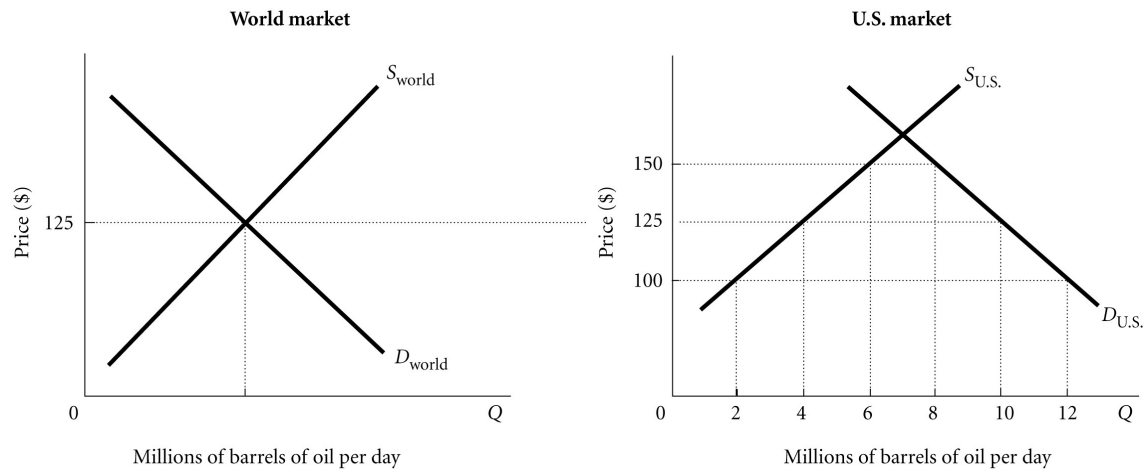


Figure 4.4

- 1) Refer to Figure 4.4. At the world price of \_\_\_\_\_ per barrel of oil, the United States imports 6 million barrels of oil per day.

A) \$100  
B) \$125  
C) \$150  
D) >\$150

Answer: B

Diff: 2

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

- 2) Refer to Figure 4.4. The United States will import 2 million barrels of oil per day if a \_\_\_\_\_ per barrel tax is levied on imported oil.

A) \$25  
B) \$50  
C) \$100  
D) \$150

Answer: A

Diff: 2

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

3) Refer to Figure 4.4. The price of oil in the United States would be \$125 per barrel, and the United States would import 6 million barrels of oil per day if the United States levies \_\_\_\_\_ per barrel tax on imported oil.

- A) no
- B) a \$25
- C) a \$50
- D) a \$100

Answer: A

Diff: 2

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

4) Refer to Figure 4.4. Assume that initially there is free trade. The price of oil in the United States will increase to \$150 per barrel if the United States then imposes \_\_\_\_\_ tax per barrel of imported oil.

- A) no
- B) a \$25
- C) a \$50
- D) a \$100

Answer: B

Diff: 2

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

5) Refer to Figure 4.4. Assume that initially there is free trade. Tax revenue of \$ 50 million per day will be generated if the United States imposes a \_\_\_\_\_ tax per barrel on imported oil.

- A) \$25
- B) \$50
- C) \$100
- D) \$150

Answer: A

Diff: 2

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

6) Refer to Figure 4.4. Assume that initially there is free trade. If the United States allowed drilling for more oil in the Gulf of Mexico, it could

- A) reduce U.S. oil imports without a tax.
- B) decrease the demand for domestic oil.
- C) reduce the supply of domestic oil.
- D) increase the domestic price of oil.

Answer: A

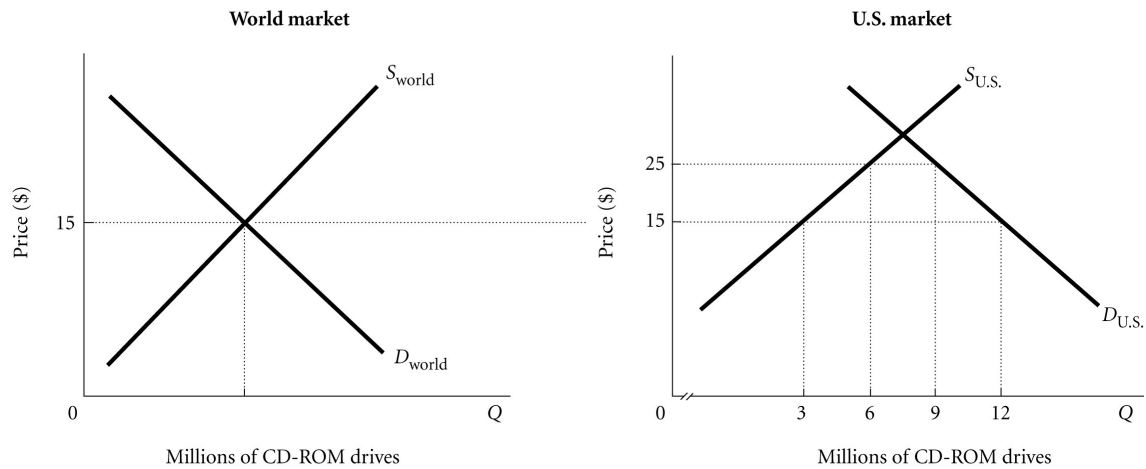
Diff: 2

Topic: Supply and Demand Analysis

Skill: Conceptual

AACSB: Reflective Thinking

Refer to the information provided in Figure 4.5 below to answer the questions that follow.



**Figure 4.5**

7) Refer to Figure 4.5. The United States imports 9 million CD-Rom drives at a world price of \_\_\_\_\_ per CD-Rom drive.

- A) \$15
- B) \$25
- C) between \$15 and \$25
- D) >\$25

Answer: A

Diff: 2

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

8) Refer to Figure 4.5. The United States will import 3 million CD-Rom drives if \_\_\_\_\_ tax per CD-Rom drive is levied on imported CD-Rom drives.

- A) no
- B) a \$10
- C) a \$15
- D) a \$25

Answer: B

Diff: 2

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

9) Refer to Figure 4.5. The price of CD-Rom drives in the United States would be \$15 per CD-Rom drive, and the United States would import 9 million CD-Rom drives if the United States imposed \_\_\_\_\_ tax per CD-Rom drive on imported CD-Rom drives.

- A) no
- B) a \$10
- C) a \$15
- D) a \$25

Answer: A

Diff: 1

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

10) Refer to Figure 4.5. Assume that initially there is free trade. The quantity demanded of CD-Rom drives will be reduced by 3 million CD-Rom drives if the United States imposes \_\_\_\_\_ tax per CD-Rom drive on imported CD-Rom drives.

- A) no
- B) a \$10
- C) a \$15
- D) a \$25

Answer: B

Diff: 2

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

11) Refer to Figure 4.5. Assume that initially there is free trade. The quantity of CD-Rom drives supplied by U.S. firms will increase by 3 million CD-Rom drives if the United States then imposes \_\_\_\_\_ tax per CD-Rom drive on imported CD-Rom drives.

- A) no
- B) a \$10
- C) a \$15
- D) a \$25

Answer: B

Diff: 2

Topic: Supply and Demand Analysis

Skill: Analytic

AACSB: Analytic Skills

## 2 True/False

1) A U.S. import fee on steel would reduce imports and lower the price of U.S. steel products.

Answer: FALSE

Diff: 2

Topic: Supply and Demand Analysis

Skill: Conceptual

AACSB: Reflective Thinking



2) A U.S. import fee on steel would increase the domestic quantity demanded of steel.

Answer: FALSE

Diff: 2

Topic: Supply and Demand Analysis

Skill: Conceptual

AACSB: Reflective Thinking

3) A U.S. import fee on steel would increase the domestic quantity supplied of steel.

Answer: TRUE

Diff: 2

Topic: Supply and Demand Analysis

Skill: Conceptual

AACSB: Reflective Thinking

### 4.3 Supply and Demand and Market Efficiency

#### 1 Multiple Choice

1) The difference between current market price and full costs of production for the firm is known as

A) consumer surplus.

B) producer surplus.

C) market surplus.

D) nonprice surplus.

Answer: B

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Definition

2) The difference between the maximum a person is willing to pay and current market price is known as

A) consumer surplus.

B) producer surplus.

C) market surplus.

D) nonprice surplus.

Answer: A

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Definition

- 3) If the most someone is willing to pay for an airline ticket to Las Vegas is \$300 and the market price of the ticket is \$200, then this buyer will get consumer surplus of
- A) \$100.
  - B) \$200.
  - C) \$300.
  - D) \$500.

Answer: A

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Analytic

AACSB: Analytic Skills

- 4) The market price of a bowling ball is \$125 and the full cost of producing it is \$35, then a bowling ball producing firm gets producer surplus of
- A) \$35.
  - B) \$90.
  - C) \$125.
  - D) \$160.

Answer: B

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Analytic

AACSB: Analytic Skills

Refer to the information provided in Figure 4.6 below to answer the questions that follow.  
Equilibrium in this market occurs at the intersection of curves S and D.

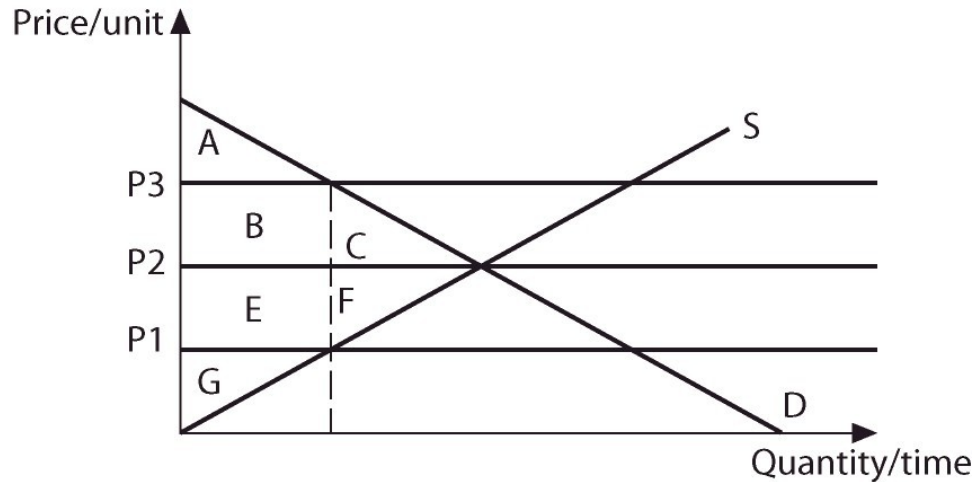


Figure 4.6

- 5) In figure 4.6 the area of  $[A + B + C]$  represents
- A) producer surplus.
  - B) consumer surplus.
  - C) consumer surplus plus producer surplus.
  - D) consumer surplus minus producer surplus.

Answer: B

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Analytic

AACSB: Analytic Skills

- 6) In figure 4.6 the area of  $[E + F + G]$  represents
- A) producer surplus.
  - B) consumer surplus.
  - C) consumer surplus plus producer surplus.
  - D) consumer surplus minus producer surplus.

Answer: A

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Analytic

AACSB: Analytic Skills

7) In figure 4.6, consumer surplus is area  $[A + B + E]$  if price is

- A)  $P_1$ .
- B)  $P_2$ .
- C)  $P_3$ .
- D) above  $P_3$ .

Answer: A

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Analytic

AACSB: Analytic Skills

8) In figure 4.6, producer surplus is area G if price is

- A) below  $P_1$ .
- B)  $P_1$ .
- C)  $P_2$ .
- D)  $P_3$ .

Answer: B

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Analytic

AACSB: Analytic Skills

9) In figure 4.6 the deadweight loss due to under production is area  $[C + F]$  if price is

- A)  $P_1$ .
- B)  $P_2$ .
- C)  $P_3$ .
- D)  $> P_3$ .

Answer: A

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Analytic

AACSB: Analytic Skills

10) In figure 4.6 producer surplus changes by the area  $[E + F]$  if price goes from equilibrium to

- A)  $P_1$ .
- B)  $P_3$ .
- C)  $< P_1$ .
- D)  $> P_3$ .

Answer: A

Diff: 3

Topic: Supply and Demand and Market Efficiency

Skill: Analytic

AACSB: Analytic Skills

- 11) In figure 4.6 consumer surplus changes by the area [E - C] if price goes from equilibrium to
- A) P1.
  - B) P3.
  - C)  $< P1$ .
  - D)  $> P3$ .

Answer: A

Diff: 3

Topic: Supply and Demand and Market Efficiency

Skill: Analytic

AACSB: Analytic Skills

- 12) The total of consumer plus producer surplus is \_\_\_\_\_ at the market equilibrium.
- A) greatest
  - B) smallest
  - C) zero
  - D) negative

Answer: A

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Conceptual

AACSB: Reflective Thinking

- 13) A deadweight loss occurs \_\_\_\_\_ in a market.
- A) only when there is overproduction
  - B) only when there is underproduction
  - C) when there is efficient production
  - D) when there is underproduction or overproduction

Answer: A

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Conceptual

AACSB: Reflective Thinking

## 2 True/False

- 1) Producer surplus is the difference between the most a person is willing to pay and market price.

Answer: FALSE

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Definition

- 2) Producer surplus describes a situation in which there is excess quantity demanded.

Answer: FALSE

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Definition

- 3) If someone is willing to pay \$800 to go to the World Cup but can buy a ticket for \$500, they will get \$300 in consumer surplus.

Answer: TRUE

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Analytic

AACSB: Analytic Skills

- 4) A firm that sells a motorcycle for \$15,000 also gets producer surplus of \$15,000.

Answer: FALSE

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Conceptual

AACSB: Reflective Thinking

- 5) The total of consumer plus producer surplus is at a minimum at the market equilibrium.

Answer: FALSE

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Conceptual

AACSB: Reflective Thinking

- 6) The total of producer and consumer surplus is maximized when there is overproduction.

Answer: FALSE

Diff: 2

Topic: Supply and Demand and Market Efficiency

Skill: Conceptual

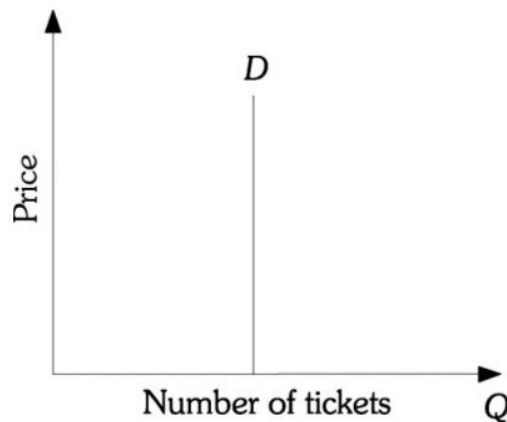
AACSB: Reflective Thinking

*Principles of Microeconomics, 9e - Test Item File 2 (Case/Fair/Oster)*  
**Chapter 5 Demand and Supply Applications**

5.1 Price Elasticity of Demand

1 Multiple Choice

*Refer to the information provided in Figure 5.1 below to answer the questions that follow.*



**Figure 5.1**

- 1) Refer to Figure 5.1. The demand for tickets is
- A) perfectly price elastic.
  - B) perfectly price inelastic.
  - C) unit price elastic.
  - D) perfectly income inelastic.

Answer: B

Diff: 1

Topic: Price Elasticity of Demand

Skill: Fact

- 2) Demand determines price entirely when
- A) demand is downward sloping.
  - B) demand is perfectly inelastic.
  - C) supply is perfectly inelastic.
  - D) supply is perfectly elastic.

Answer: C

Diff: 2

Topic: Price Elasticity of Demand

Skill: Definition

- 3) For perfectly price inelastic supply
- A) supply determines price solely.
  - B) demand determines price solely.
  - C) only a government can set the price.
  - D) either supply or demand may set the price.

Answer: B

Diff: 2

Topic: Other Important Elasticities

Skill: Definition

- 4) For perfectly price elastic supply curve will be a \_\_\_\_\_ line.
- A) horizontal
  - B) vertical
  - C) upward sloping
  - D) downward sloping

Answer: A

Diff: 2

Topic: Other Important Elasticities

Skill: Definition

- 5) A perfectly price elastic demand curve will be a \_\_\_\_\_ line.
- A) horizontal
  - B) vertical
  - C) positively sloped
  - D) negatively sloped

Answer: A

Diff: 1

Topic: Price Elasticity of Demand

Skill: Fact

- 6) A \_\_\_\_\_ line is a perfectly price inelastic demand curve.
- A) horizontal
  - B) vertical
  - C) positively sloped
  - D) negatively sloped

Answer: B

Diff: 1

Topic: Price Elasticity of Demand

Skill: Fact



7) When the price of radios decreases 5%, quantity demanded increases 5%. The price elasticity of demand for radios is \_\_\_\_\_ and total revenue from radio sales will \_\_\_\_\_ .

- A) elastic; decrease
- B) elastic; increase
- C) inelastic; decrease
- D) unit elastic; not change

Answer: D

Diff: 2

Topic: Price Elasticity of Demand

Skill: Analytic

8) When the price of fresh fish increases 10%, quantity demanded decreases 5%. The price elasticity of demand for fresh fish is \_\_\_\_\_ and total revenue from fresh fish sales will \_\_\_\_\_ .

- A) inelastic; increase
- B) inelastic; decrease
- C) elastic; decrease
- D) elastic; increase

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

Skill: Definition

9) When the price of fresh fish increases 10%, quantity demanded is unchanged. The price elasticity of demand for fresh fish is

- A) perfectly inelastic.
- B) elastic.
- C) inelastic.
- D) unitary elastic.

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

Skill: Definition

10) When the price of coffee increases 5%, quantity demanded decreases 10%. The price elasticity of demand for coffee is \_\_\_\_\_ and total revenue from coffee sales will \_\_\_\_\_ .

- A) inelastic; increase
- B) inelastic; decrease
- C) elastic; increase
- D) elastic; decrease

Answer: D

Diff: 2

Topic: Price Elasticity of Demand

Skill: Definition

- 11) The ABC Computer Company wants to increase the quantity of computers it sells by 5%. If the price elasticity of demand is -2.5, the company must

- A) increase price by 2.0%.
- B) decrease price by 2.0%.
- C) increase price by 0.5%.
- D) decrease price by 0.5%.

Answer: B

Diff: 2

Topic: Price Elasticity of Demand

Skill: Analytic

- 12) A government wants to reduce electricity consumption by 10%. The price elasticity of demand for electricity is -5. The government must \_\_\_\_\_ the price of electricity by \_\_\_\_\_.

- A) raise; 2.0%
- B) raise; 0.5%
- C) raise; 1.25%
- D) lower; 0.5%

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

Skill: Analytic

- 13) A government wants to reduce electricity consumption by 5%. The price elasticity of demand for electricity is -0.5. The government must \_\_\_\_\_ the price of electricity by \_\_\_\_\_.

- A) raise; 10.0%
- B) raise; 1.0%
- C) raise; 0.1%
- D) lower; 0.5%

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

Skill: Analytic

- 14) The price elasticity of demand for bottled water in Texas is -2, and the price elasticity of demand for bottled water in California is -0.5. In other words, demand in Texas is \_\_\_\_\_ and demand in California is \_\_\_\_\_.

- A) elastic; inelastic
- B) inelastic; elastic
- C) elastic; unit elastic
- D) inelastic; unit inelastic

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

Skill: Conceptual

- 15) An increase in demand caused no change in the equilibrium price. Thus, supply must be
- A) perfectly inelastic.
  - B) inelastic.
  - C) elastic.
  - D) perfectly elastic.

Answer: D

Diff: 2

Topic: Other Important Elasticities

Skill: Definition

- 16) The price elasticity of demand for heart transplants is perfectly inelastic. Thus, the price elasticity demand for heart transplants is
- A) 0.0.
  - B) 1.0.
  - C) -1.0.
  - D) -100.0.

Answer: A

Diff: 2

Topic: Price Elasticity of Demand

Skill: Analytic

- 17) If the supply of oranges is unit elastic, the price elasticity of supply of oranges is
- A) 0.0.
  - B) 1.0.
  - C) -1.0.
  - D) -100.0.

Answer: B

Diff: 2

Topic: Other Important Elasticities

Skill: Analytic

## 5.2 Calculating Elasticities

### 1 Multiple Choice

Refer to the information provided in Figure 5.2 below to answer the questions that follow.

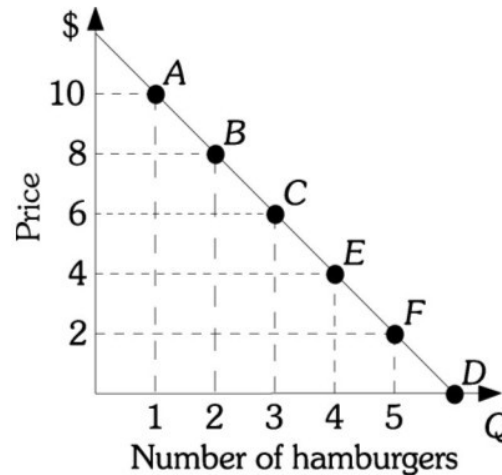


Figure 5.2

- 1) Refer to Figure 5.2. If the price of a hamburger is increased from \$8 to \$10, the price elasticity of demand equals \_\_\_\_\_. Use the midpoint formula.

A) -0.33  
B) -3.0  
C) -30.  
D) -300

Answer: B

Diff: 2

Topic: Calculating Elasticities

Skill: Analytic

- 2) Refer to Figure 5.2. If the price of a hamburger is increased from \$6 to \$8, the price elasticity of demand equals \_\_\_\_\_. Use the midpoint formula.

A) -0.24  
B) -1.0  
C) -1.4  
D) -2.0

Answer: C

Diff: 2

Topic: Calculating Elasticities

Skill: Analytic

3) Refer to Figure 5.2. If the price of a hamburger is increased from \$2 to \$4, the price elasticity of demand equals \_\_\_\_\_. Use the midpoint formula.

- A) -0.33
- B) -2.0
- C) -3.0
- D) -5.0

Answer: A

Diff: 2

Topic: Calculating Elasticities

Skill: Analytic

4) Refer to Figure 5.2. At Point C the price elasticity of demand is -1. Along line segment *EC* of the demand curve, the demand is

- A) elastic.
- B) unit elastic.
- C) inelastic.
- D) either elastic or inelastic, depending on whether price increases or decreases.

Answer: C

Diff: 2

Topic: Calculating Elasticities

Skill: Definition

5) Refer to Figure 5.2. At Point C the price elasticity of demand is -1. Along line segment *AB* of the demand curve, the demand is

- A) elastic.
- B) unit elastic.
- C) inelastic.
- D) either elastic or inelastic, depending on whether price increases or decreases.

Answer: A

Diff: 2

Topic: Calculating Elasticities

Skill: Definition

Refer to the information provided in Figure 5.3 below to answer the questions that follow.

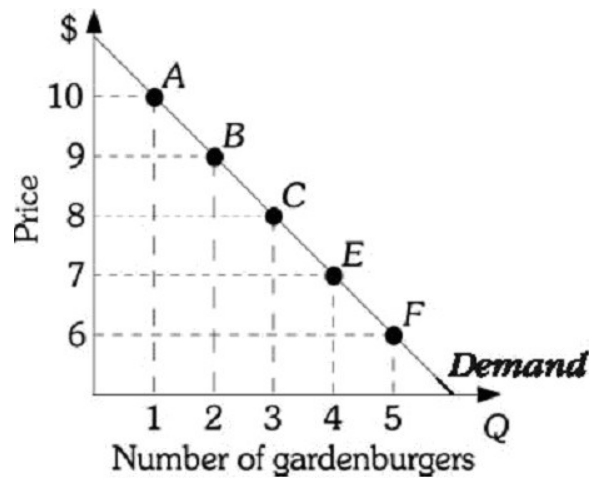


Figure 5.3

- 6) Refer to Figure 5.3. Use the midpoint formula. If the price of a gardenburger is increased from \$8 to \$10, the price elasticity of demand equals \_\_\_\_\_ and demand is \_\_\_\_\_ .

A) 4.5; elastic  
 B) -0.5; inelastic  
 C) -4.5; elastic  
 D) -9.0; inelastic

Answer: C

Diff: 2

Topic: Calculating Elasticities

Skill: Analytic

- 7) Refer to Figure 5.3. Use the midpoint formula. If the price of a gardenburger is increased from \$6 to \$8, the price elasticity of demand equals \_\_\_\_\_ and demand is \_\_\_\_\_ .

A) -0.57; inelastic  
 B) -1.75; elastic  
 C) -1.9; inelastic  
 D) -2.0; elastic

Answer: B

Diff: 2

Topic: Calculating Elasticities

Skill: Analytic

- 8) Refer to Figure 5.3. Using the midpoint formula, if the price of a gardenburger is decreased from \$7 to \$6, the price elasticity of demand equals \_\_\_\_\_ and the decrease results in a(n) \_\_\_\_\_ in total revenue.

A) -.13; decrease  
B) -.69; increase  
C) -1.44; increase  
D) -13; increase

Answer: C

Diff: 2

Topic: Calculating Elasticities

Skill: Analytic

- 9) The owner of a local hot dog stand has estimated that if he lowers the price of hot dogs from \$2.00 to \$1.50, he will increase sales from 400 to 500 hot dogs per day. Using the midpoint formula, the demand for hot dogs is

A) elastic.  
B) inelastic.  
C) unit elastic.  
D) perfectly elastic.

Answer: B

Diff: 2

Topic: Calculating Elasticities

Skill: Definition

- 10) At a price of \$11, quantity demanded is 90; and at a price of \$9, quantity demanded is 110. Since total revenue \_\_\_\_\_ by the price decrease, demand must be \_\_\_\_\_.

A) is increased; elastic  
B) is decreased; inelastic  
C) is unchanged; unit elastic  
D) is unchanged; elastic

Answer: C

Diff: 2

Topic: Calculating Elasticities

Skill: Analytic

- 11) At a price of \$20, a store can sell 24 picture frames a day. At a price of \$18 the store can sell 33 picture frames a day. Since total revenue \_\_\_\_\_ by the price decrease, demand must be \_\_\_\_\_.

A) is increased; elastic  
B) is increased; inelastic  
C) is increased; unit elastic  
D) is decreased; elastic

Answer: A

Diff: 2

Topic: Calculating Elasticities

Skill: Analytic

12) Price and total revenue move in inverse directions when demand is

- A) price elastic.
- B) price inelastic.
- C) unit price elastic.
- D) perfectly price inelastic.

Answer: A

Diff: 1

Topic: Calculating Elasticities

Skill: Fact

13) Price and total revenue are directly related when demand is

- A) price elastic.
- B) price inelastic.
- C) unit price elastic.
- D) perfectly price elastic.

Answer: B

Diff: 1

Topic: Calculating Elasticities

Skill: Fact

14) Total revenue decreases if price \_\_\_\_\_ and demand is \_\_\_\_\_.

- A) falls; elastic
- B) falls; inelastic
- C) rises; inelastic
- D) rises; unit elastic

Answer: B

Diff: 1

Topic: Calculating Elasticities

Skill: Fact

15) Total revenue increases if price \_\_\_\_\_ and demand is \_\_\_\_\_.

- A) falls; inelastic
- B) falls; elastic
- C) rises; elastic
- D) rises; unit elastic

Answer: B

Diff: 1

Topic: Calculating Elasticities

Skill: Fact



Refer to the information provided in Figure 5.4 below to answer the questions that follow.

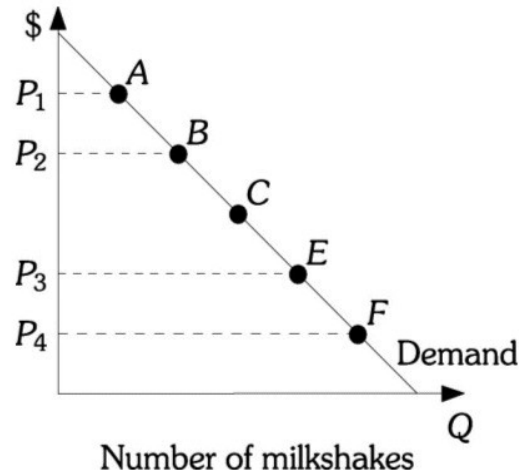


Figure 5.4

- 16) Refer to Figure 5.4. The demand for milkshakes is unit elastic at Point C. If a store reduces the price of a milkshake from  $P_3$  to  $P_4$ , its total revenue will
- A) increase.
  - B) decrease.
  - C) remain constant.
  - D) either increase or decrease.

Answer: B

Diff: 1

Topic: Calculating Elasticities

Skill: Fact

- 17) Refer to Figure 5.4. The demand for milkshakes is unit elastic at Point C. If the milkshake price falls from  $P_1$  to  $P_2$ , total revenue will
- A) increase.
  - B) decrease.
  - C) remain constant.
  - D) either increase or decrease.

Answer: A

Diff: 1

Topic: Calculating Elasticities

Skill: Fact

- 18) Refer to Figure 5.4. Along the given demand curve, which of the following is true?
- A) Demand is less elastic along the segment AB than the segment EF.
  - B) Demand is less elastic along the segment EF than the segment AB.
  - C) Since the demand curve is linear, the price elasticity of demand between each of the points (e.g. segment AB, segment BC, etc.) is the same.
  - D) It is impossible to tell with the given diagram.

Answer: B

Diff: 2

Topic: Calculating Elasticities

Skill: Fact

- 19) A firm is currently producing in the inelastic portion of its demand curve. What course of action do you recommend for it assuming it wants to raise revenue?
- A) Continue producing at the current output level, because it maximizes its total revenue by producing in the inelastic portion of its demand curve.
  - B) Reduce price, because if it reduces price and demand is inelastic, total revenue will increase.
  - C) Increase price, because if it increases price and demand is inelastic, total revenue will increase.
  - D) Continue selling at the same price, but increase the amount it produces.

Answer: C

Diff: 3

Topic: Calculating Elasticities

Skill: Conceptual

- 20) A firm is currently producing in the elastic portion of its demand curve. What course of action do you recommend for it assuming it wants to raise revenue?
- A) Continue producing at the current output level, because it maximizes its total revenue by producing in the elastic portion of its demand curve.
  - B) Reduce price, because if it reduces price and demand is elastic, total revenue will increase.
  - C) Increase price, because if it increases price and demand is elastic, total revenue will increase.
  - D) Continue selling at the same price, but increase the amount it produces.

Answer: B

Diff: 3

Topic: Calculating Elasticities

Skill: Conceptual

## 2 True/False

- 1) When the slope of a demand curve is constant, price elasticity of demand is constant as well.

Answer: FALSE

Diff: 1

Topic: Calculating Elasticities

Skill: Fact

- 2) A demand curve with continuously changing slope over all quantity values can have a constant price elasticity of demand.  
Answer: TRUE  
Diff: 2  
Topic: Calculating Elasticities  
Skill: Fact
- 3) A demand curve with constant slope over all quantity values can have a continuously changing price elasticity of demand.  
Answer: TRUE  
Diff: 2  
Topic: Calculating Elasticities  
Skill: Fact
- 4) Price elasticity of demand is calculated using the change in quantity demanded and the change in price.  
Answer: FALSE  
Diff: 2  
Topic: Price Elasticity of Demand  
Skill: Definition
- 5) The price elasticity of demand is generally negative to reflect the indirect relationship between the quantity demanded of a good and its price.  
Answer: TRUE  
Diff: 2  
Topic: Price Elasticity of Demand  
Skill: Definition
- 6) Perfectly inelastic demand is graphed as a vertical line.  
Answer: TRUE  
Diff: 1  
Topic: Price Elasticity of Demand  
Skill: Fact
- 7) Perfectly elastic demand is graphed as a horizontal line.  
Answer: TRUE  
Diff: 1  
Topic: Price Elasticity of Demand  
Skill: Fact
- 8) A tax on a good whose demand is price elastic will be effective in discouraging consumption of that good.  
Answer: TRUE  
Diff: 1  
Topic: Calculating Elasticities  
Skill: Fact

- 9) If government officials are mainly interested in generating tax revenue, then they should tax goods for which demand is price elastic.  
Answer: FALSE  
Diff: 1  
Topic: Calculating Elasticities  
Skill: Fact
- 10) How total revenue changes when a price changes can be predicted using price elasticity of demand.  
Answer: TRUE  
Diff: 2  
Topic: Calculating Elasticities  
Skill: Definition
- 11) When demand is elastic, an increase in price will result in an increase in total revenue.  
Answer: FALSE  
Diff: 1  
Topic: Calculating Elasticities  
Skill: Fact
- 12) When demand is elastic, a decrease in price will result in an increase in total revenue.  
Answer: TRUE  
Diff: 1  
Topic: Calculating Elasticities  
Skill: Fact
- 13) When demand is inelastic, an increase in price will result in an increase in total revenue.  
Answer: TRUE  
Diff: 1  
Topic: Calculating Elasticities  
Skill: Fact
- 14) When demand is inelastic, a decrease in price will result in an increase in total revenue.  
Answer: FALSE  
Diff: 1  
Topic: Calculating Elasticities  
Skill: Fact
- 15) When demand is unit elastic, an increase in price will result in an increase in total revenue.  
Answer: FALSE  
Diff: 1  
Topic: Calculating Elasticities  
Skill: Fact
- 16) When demand is unit elastic, a decrease in price will result in no change in total revenue.  
Answer: TRUE  
Diff: 1  
Topic: Calculating Elasticities  
Skill: Fact

## 5.3 The Determinants of Demand Elasticity

### 1 Multiple Choice

- 1) When there are more substitutes for a product, the \_\_\_\_\_ for the product is \_\_\_\_\_.  
A) demand; less price elastic  
B) demand; more price elastic  
C) income elasticity; greater  
D) income elasticity; smaller

Answer: B

Diff: 1

Topic: Determinants of Demand Elasticity

Skill: Fact

- 2) The more time that elapses, the  
A) less price elastic is the demand for the product.  
B) more price elastic is the demand for the product.  
C) greater the income elasticity of demand for a product.  
D) smaller the income elasticity of demand for the product.

Answer: B

Diff: 1

Topic: Determinants of Demand Elasticity

Skill: Fact

- 3) The determinants of elasticity include  
A) availability of substitutes.  
B) price relative to income.  
C) time.  
D) all of the above

Answer: D

Diff: 2

Topic: Determinants of Demand Elasticity

Skill: Definition

## 5.4 Other Important Elasticities

### 1 Multiple Choice

- 1) The income elasticity of demand  
A) measures the change in income necessary for a given change in quantity demanded.  
B) measures the responsiveness of income to changes in quantity demanded.  
C) measures the responsiveness of quantity demanded to changes in income.  
D) is the ratio of the percentage change in income to the percentage change in quantity demanded.

Answer: C

Diff: 1

Topic: Other Important Elasticities

Skill: Definition

2) If income increases by 10% and, in response, the quantity of housing demanded increases by 7%, then the income elasticity of demand for housing is

- A) -0.7
- B) -1
- C) 0.7
- D) 1.43

Answer: C

Diff: 2

Topic: Other Important Elasticities

Skill: Analytic

3) The income elasticity of demand for education is 3.5. Thus, a 4% increase in income will

- A) decrease the quantity of education demanded by 3.5%.
- B) decrease the quantity of education demanded by 14%.
- C) increase the quantity of education demanded by 4%.
- D) increase the quantity of education demanded by 14%.

Answer: D

Diff: 2

Topic: Other Important Elasticities

Skill: Analytic

4) The income elasticity of demand for low-quality beef is -2. Thus, an 8% decrease in the quantity of low-quality beef demanded

- A) is the result of a decrease in income of 4%.
- B) is the result of an increase in income of 0.25%.
- C) is the result of an increase in income of 4%.
- D) is unrelated to any change in income.

Answer: C

Diff: 2

Topic: Other Important Elasticities

Skill: Analytic

5) Assume you earn \$20,000 a year and your favorite sports magazine costs you \$100 a year. Your demand for the sports magazine is likely to be

- A) elastic.
- B) inelastic.
- C) perfectly elastic.
- D) perfectly inelastic.

Answer: A

Diff: 1

Topic: Other Important Elasticities

Skill: Fact

- 6) Assume you earn \$75,000 a year and your favorite entertainment magazine costs you \$25 a year. Your demand for the entertainment magazine is likely to be
- A) elastic.
  - B) inelastic.
  - C) perfectly elastic.
  - D) perfectly inelastic.

Answer: B

Diff: 1

Topic: Other Important Elasticities

Skill: Fact

- 7) The ABC Computer Company spends a lot of money for advertising designed to convince you that their personal computers are superior to all other personal computers. If the ABC Company is successful, the demand for ABC personal computers
- A) and the demand for other firms' personal computers will become less price elastic.
  - B) and the demand for other firms' personal computers will become more price elastic.
  - C) will become more price elastic but the demand for other firms' personal computers will become less price elastic.
  - D) will become less price elastic but the demand for other firms' personal computers will become more price elastic.

Answer: D

Diff: 3

Topic: Other Important Elasticities

Skill: Conceptual

- 8) A government is considering levying an alcohol tax to raise revenue to finance health care benefits. People for the tax argue that alcohol demand is price inelastic. Which of the following statements is TRUE?
- A) The alcohol tax may not raise as much revenue as anticipated in the years to come because alcohol demand is likely to become more elastic over time.
  - B) This is a very good way to raise revenue both in the short term and in the long term because there are no close substitutes for alcohol.
  - C) This tax will not raise much revenue either in the short term or the long term because demand is price inelastic.
  - D) No tax revenue can be raised in this way because alcohol sellers will just lower their price by the amount of the tax and therefore the consumer price of alcohol will not change.

Answer: A

Diff: 3

Topic: Other Important Elasticities

Skill: Conceptual

- 9) In order to discourage consumers from eating unhealthy fast food, the government is considering placing a tax on all fast food sales. Which of the following statements is TRUE?
- A) Given the numerous alternatives, consumers' demand for fast food is relatively elastic and the tax will likely work to discourage fast food consumption.
  - B) The tax on fast food will likely raise considerable revenue, but will be unlikely to reduce the consumption of fast food by consumers.
  - C) The tax on fast food will likely increase the demand for homecooked meals.
  - D) Both (A) and (C) are true.

Answer: D

Diff: 3

Topic: Other Important Elasticities

Skill: Conceptual

- 10) Suppose an increase of 10% in the price of steak reduces the consumption of steak by 30%. Such a price rise will induce households to spend
- A) less of their income on steak.
  - B) more of their income on steak.
  - C) the same amount on steak as before.
  - D) more on products that are complementary with steak.

Answer: A

Diff: 2

Topic: Other Important Elasticities

Skill: Definition

- 11) Cross-price elasticity of demand measures the response in the
- A) price of a good to a change in the quantity of another good demanded.
  - B) income of consumers to the change in the price of goods.
  - C) quantity of one good demanded when the quantity demanded of another good changes.
  - D) quantity of one good demanded to a change in the price of another good.

Answer: D

Diff: 2

Topic: Other Important Elasticities

Skill: Definition

- 12) If the quantity demanded of tea increases by 2% when the price of coffee increases by 6%, the cross-price elasticity of demand between tea and coffee is
- A) -3.
  - B) 0.33.
  - C) 3.
  - D) 12.

Answer: B

Diff: 2

Topic: Other Important Elasticities

Skill: Analytic



- 13) If the quantity demanded of bagels decreases by 8% when the price of croissants decreases by 16%, the cross-price elasticity of demand between bagels and croissants is

A) 0.5.  
B) -5.  
C) -2.  
D) 2.

Answer: A

Diff: 2

Topic: Other Important Elasticities

Skill: Analytic

- 14) If the quantity demanded of peanut butter increases by 4% when the price of jelly decreases by 2%, the cross-price elasticity of demand between peanut butter and jelly is

A) -4.  
B) -2.  
C) -0.5.  
D) 2.

Answer: B

Diff: 2

Topic: Other Important Elasticities

Skill: Analytic

- 15) If the cross-price elasticity of demand between fish and chicken is 2, then a 2% increase in the price of fish will result in a \_\_\_\_\_ in the quantity of chicken demanded.

A) 1% increase  
B) 4% increase  
C) 10% increase  
D) 20% decrease

Answer: B

Diff: 2

Topic: Other Important Elasticities

Skill: Analytic

- 16) The cross-price elasticity of demand between good X and good Y is -3. Given this information, which of the following statements is TRUE?

A) The demand for goods X and Y is elastic.  
B) Goods X and Y are substitutes.  
C) Goods X and Y are complements.  
D) The demand for goods X and Y is income elastic.

Answer: C

Diff: 2

Topic: Other Important Elasticities

Skill: Conceptual

- 17) The cross-price elasticity of demand between good X and good Y is 0.5. Given this information, which of the following statements is TRUE?

A) The demand for goods X and Y is inelastic.  
B) Goods X and Y are substitutes.  
C) Goods X and Y are complements.  
D) The demand for goods X and Y is income inelastic.

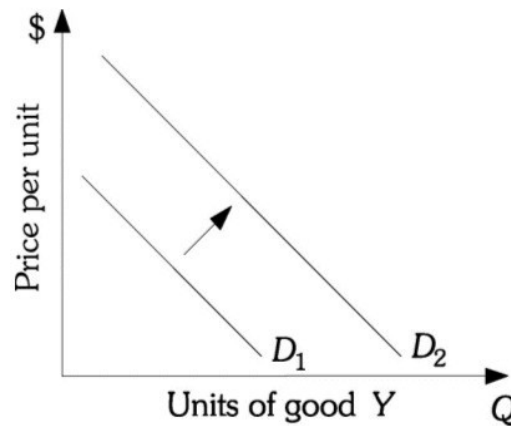
Answer: B

Diff: 2

Topic: Other Important Elasticities

Skill: Conceptual

*Refer to the information provided in Figure 5.5 below to answer the question that follows.*



**Figure 5.5**

- 18) Refer to Figure 5.5. As the price of W increased, the demand for Y shifted from  $D_1$  to  $D_2$ . The cross-price elasticity of demand between W and Y is

A) positive.  
B) negative.  
C) zero.  
D) indeterminate from this information.

Answer: A

Diff: 2

Topic: Other Important Elasticities

Skill: Definition

- 19) In output markets, the elasticity of supply tends to be

A) negative.  
B) zero.  
C) positive.  
D) decreasing at an increasing rate.

Answer: C

Diff: 1

Topic: Other Important Elasticities

Skill: Fact

- 20) If the elasticity of labor supply is positive, the labor-supply curve would be
- A) horizontal.
  - B) vertical.
  - C) downward sloping.
  - D) upward sloping.

Answer: D

Diff: 1

Topic: Other Important Elasticities

Skill: Fact

*Refer to the information provided in Figure 5.6 below to answer the question that follows.*

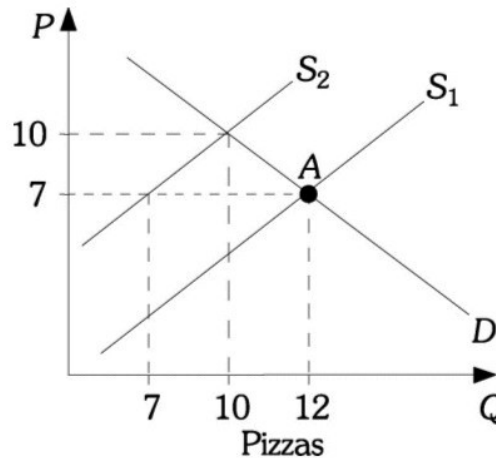


Figure 5.6

- 21) Refer to Figure 5.6. The market is initially in equilibrium at Point A (where price = \$7 and quantity = 12 thousand pizzas) and supply shifts from  $S_1$  to  $S_2$ . Which of the following statements is TRUE?
- A) Price will still serve as a rationing device causing quantity supplied to exceed 12 thousand pizzas.
  - B) There is no need for price to serve as a rationing device in this case because the new equilibrium quantity exceeds the original equilibrium quantity.
  - C) Price will still serve as a rationing device causing quantity demanded to fall from 12 to 10 thousand pizzas.
  - D) The market cannot move to a new equilibrium until there is also a change in supply.

Answer: C

Diff: 1

Topic: Other Important Elasticities

Skill: Fact

22) At a price of \$4, quantity supplied is 100; and at a price of \$6, quantity supplied is 120. Using the midpoint formula, the price elasticity of supply is \_\_\_\_\_ and supply is \_\_\_\_\_.

- A) 0.1; inelastic
- B) 0.45; inelastic
- C) 2.2; elastic
- D) 10; elastic

Answer: B

Diff: 2

Topic: Other Important Elasticities

Skill: Analytic

23) A mass transit authority charges bus fares of \$1.25 during morning rush hours but only \$1.00 during late morning non-rush hours. Economists explain the fare difference by the fact that the demand for bus rides during the morning rush hours is \_\_\_\_\_ but during the late morning it is \_\_\_\_\_.

- A) more elastic; more inelastic
- B) perfectly elastic; perfectly inelastic
- C) more inelastic; more elastic
- D) unit elastic; relatively inelastic

Answer: C

Diff: 3

Topic: Other Important Elasticities

Skill: Conceptual

## 2 True/False

1) A positive cross-price elasticity between two goods implies that the two goods are substitutes.

Answer: TRUE

Diff: 2

Topic: Other Important Elasticities

Skill: Definition

2) A positive cross-price elasticity between two goods implies that the two goods are compliments.

Answer: FALSE

Diff: 2

Topic: Other Important Elasticities

Skill: Definition

3) Inferior goods will experience increasing demand when incomes increase.

Answer: FALSE

Diff: 2

Topic: Other Important Elasticities

Skill: Analytic

- 4) If a group has a negative elasticity of labor supply (above some income level), then continued increases in wages will result in decreases in the quantity of labor supplied.

Answer: TRUE

Diff: 2

Topic: Other Important Elasticities

Skill: Definition

***Principles of Microeconomics, 9e - Test Item File 2 (Case/Fair/Oster)***  
**Chapter 6 Household Behavior and Consumer Choice**

**6.1 Household Choice in Open Market**

**1 Multiple Choice**

- 1) Jane has \$500 a week to spend on clothing and food. The price of clothing is \$25 and the price of food is \$10. The clothing and food pairs in Jane's choice set include \_\_\_\_\_ units of clothing and \_\_\_\_\_ units of food.

A) 50; 50  
B) 20; 50  
C) 15; 25  
D) 8; 30

Answer: D

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 2) Jane has \$500 a week to spend on clothing and food. The price of clothing is \$25 and the price of food is \$10. Jane spends her entire income when she purchases \_\_\_\_\_ units of clothing and \_\_\_\_\_ units of food.

A) 10; 10  
B) 25; 5  
C) 12; 20  
D) 16; 8

Answer: C

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 3) Jim has \$600 a week to spend on clothing and food. The price of clothing is \$30 and the price of food is \$5. The clothing and food pairs in Jim's choice set include \_\_\_\_\_ units of clothing and \_\_\_\_\_ units of food.

A) 20; 50  
B) 15; 70  
C) 10; 60  
D) 0; 200

Answer: C

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

4) Jane has \$500 a week to spend on clothing ( $c$ ) and food ( $f$ ). The price of clothing is \$25 and the price of food is \$10. What is the equation for Jane's budget constraint?

- A) Clothing + Food < \$500
- B)  $\$25 \times \text{Clothing} + \$10 \times \text{Food} \geq \$500$
- C)  $(\$25 \times \text{Clothing}) / (\$10 \times \text{Food}) = \$500$
- D)  $\$25 \times \text{Clothing} + \$10 \times \text{Food} = \$500$

Answer: D

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

5) Ted has \$600 a week to spend on clothing ( $c$ ) and food ( $f$ ). The price of clothing is \$30 and the price of food is \$5. What is the equation for Ted's budget constraint?

- A) Clothing + Food < \$600
- B)  $\$30 \times \text{Clothing} + \$5 \times \text{Food} \leq \$600$
- C)  $\$30 \times \text{Clothing} + \$5 \times \text{Food} > \$600$
- D)  $\$30 \times \text{Clothing} + \$5 \times \text{Food} = \$600$

Answer: D

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

Refer to the information provided in Figure 6.1 below to answer the questions that follow.

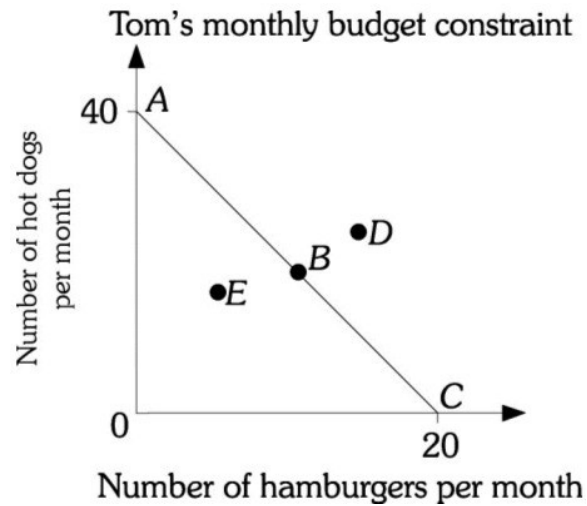


Figure 6.1

- 6) Refer to Figure 6.1. Assume Tom is on budget constraint AC and the price of a hamburger is \$4.00. Tom's monthly income is

A) \$20.  
B) \$60.  
C) \$80.  
D) \$100.

Answer: C

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 7) Refer to Figure 6.1. Assume Tom is on budget constraint AC and the price of a hot dog is \$2.00. Tom's monthly income is

A) \$40.  
B) \$60.  
C) \$80.  
D) \$100.

Answer: C

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic



- 8) Refer to Figure 6.1. The slope of budget constraint  $AC$  is
- A) -5.0.
  - B) -2.0.
  - C) -0.5.
  - D) indeterminate from this information because prices are not given.

Answer: B

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 9) Refer to Figure 6.1. Assume Tom's budget constraint is  $AC$ . He does not spend his entire income at point
- A)  $A$ .
  - B)  $B$ .
  - C)  $D$ .
  - D)  $E$ .

Answer: D

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 10) Refer to Figure 6.1. Assume Tom's budget constraint is  $AC$ . Given his current monthly income he cannot purchase the bundle of goods at point
- A)  $A$ .
  - B)  $B$ .
  - C)  $E$ .
  - D)  $D$ .

Answer: D

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 11) Refer to Figure 6.1. Assume Tom's budget constraint is  $AC$ . At which point does Tom consume only hot dogs?
- A)  $A$ .
  - B)  $B$ .
  - C)  $E$ .
  - D)  $D$ .

Answer: A

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 12) Refer to Figure 6.1. Along budget constraint  $AC$ , the opportunity cost of one hamburger
- A) is  $1/4$  of a hot dog.
  - B) is  $1/2$  of a hot dog.
  - C) is 2 hot dogs.
  - D) changes as you move down along the budget constraint.

Answer: C

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 13) Refer to Figure 6.1. Along budget constraint  $AC$ , the opportunity cost of one hot dog
- A) is  $1/4$  of a hamburger.
  - B) is  $1/2$  of a hamburger.
  - C) is 2 hamburgers.
  - D) changes as you move down along the budget constraint.

Answer: B

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 14) Refer to Figure 6.1. Tom's budget constraint is  $AC$ . His choice set includes all points
- A) to the right of budget constraint  $AC$ .
  - B) bounded by the area  $OAC$ .
  - C) along budget constraint  $AC$ .
  - D) along the vertical and horizontal axes.

Answer: B

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 15) Refer to Figure 6.1.  $AC$  represents Tom's budget constraint. Point  $D$  then represents a point that is
- A) an available option, as Tom is just spending all of his income.
  - B) available, but at which he does not spend all his income.
  - C) not available because it represents a combination of hamburgers and hot dogs that he cannot purchase with his income.
  - D) in his opportunity set but not on his budget constraint.

Answer: C

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

Refer to the information provided in Figure 6.2 below to answer the questions that follow.

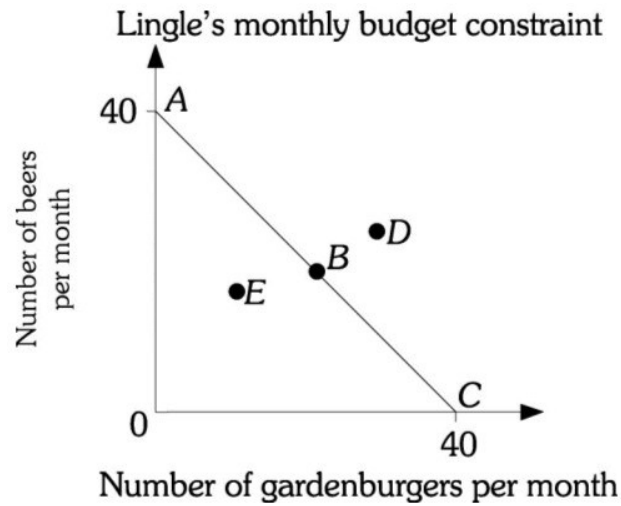


Figure 6.2

- 16) Refer to Figure 6.2. Assume Mr. Lingle is on budget constraint AC. If the price of a gardenburger is \$6, Mr. Lingle's monthly income is

A) \$24.  
B) \$60.  
C) \$200.  
D) \$240.

Answer: D

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 17) Refer to Figure 6.2. Assume Mr. Lingle is on budget constraint AC. If the price of a beer is \$5, Mr. Lingle's monthly income is

A) \$40.  
B) \$80.  
C) \$100.  
D) \$200.

Answer: D

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

18) Refer to Figure 6.2. The slope of budget constraint AC is

- A)  $-1/2$ .
- B)  $-1$ .
- C)  $-2$ .
- D) indeterminate from this information because prices are not given.

Answer: B

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

19) Refer to Figure 6.2. Assume Mr. Lingle's budget constraint is AC. He will not spend his entire income at point

- A) A.
- B) B.
- C) D.
- D) E.

Answer: D

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

20) Refer to Figure 6.2. Assume Mr. Lingle's budget is AC. Given his current monthly income he cannot purchase the quantities of the two goods at point

- A) A.
- B) B.
- C) D.
- D) E.

Answer: C

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

21) Refer to Figure 6.2. Assume Mr. Lingle's budget is AC. At which point does Mr. Lingle spend exactly his income?

- A) A.
- B) D.
- C) E.
- D) The answer cannot be determined with the given information.

Answer: A

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 22) Refer to Figure 6.2. Along budget constraint AC, the opportunity cost of one gardenburger is
- A) 1/4 of a beer.
  - B) a beer.
  - C) 2 beers.
  - D) changing as Mr. Lingle moves down his budget constraint.

Answer: B

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 23) Refer to Figure 6.2. Along budget constraint AC, the opportunity cost of one beer is
- A) 1/4 of a gardenburger.
  - B) 1 gardenburger.
  - C) 2 gardenburgers.
  - D) changing as Mr. Lingle moves down his budget constraint.

Answer: B

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 24) Refer to Figure 6.2. Mr. Lingle's budget constraint is AC. His choice set is all points
- A) in the area bounded by OAC.
  - B) to the right of budget constraint AC.
  - C) along budget constraint AC.
  - D) along the vertical and horizontal axes.

Answer: A

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 25) Refer to Figure 6.2. Mr. Lingle's budget constraint is AC. Point E is
- A) an available option and Mr. Lingle exactly spends all of his income.
  - B) an available option and Mr. Lingle does not spend all of his income.
  - C) not in Mr. Lingle's opportunity set but is on his budget constraint.
  - D) not available because it represents a combination of gardenburgers and beer that Mr. Lingle cannot purchase with his current income.

Answer: B

Diff: 3

Topic: Household Choices in Output Markets

Skill: Conceptual

- 26) Refer to Figure 6.2. Mr. Lingle's budget constraint is AC. Point C is
- A) an available option and Mr. Lingle exactly spends all of his income.
  - B) an available option and Mr. Lingle does not spend all of his income.
  - C) not in Mr. Lingle's opportunity set but is on his budget constraint.
  - D) not available because it represents a combination of gardenburgers and beer that Mr. Lingle cannot purchase with his current income.

Answer: A

Diff: 3

Topic: Household Choices in Output Markets

Skill: Conceptual

*Refer to the information provided in Figure 6.3 below to answer the questions that follow.*

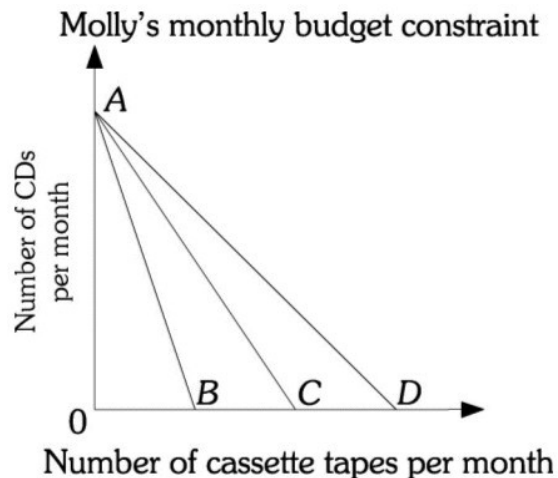


Figure 6.3

- 27) Refer to Figure 6.3. Molly's budget constraint is AC. It would swivel to AD if the price of
- A) cassette tapes increased.
  - B) cassette tapes decreased.
  - C) CDs increased.
  - D) CDs decreased.

Answer: B

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 28) Refer to Figure 6.3. Molly's budget constraint is AC. It would swivel to AB if the price of
- A) cassette tapes increased.
  - B) cassette tapes decreased.
  - C) CDs increased.
  - D) CDs decreased.

Answer: A

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 29) Refer to Figure 6.3. Molly's budget constraint is AC. Molly can purchase
- A) none of the points along AD.
  - B) all of the points along AB.
  - C) all of the points along BD.
  - D) None of the above.

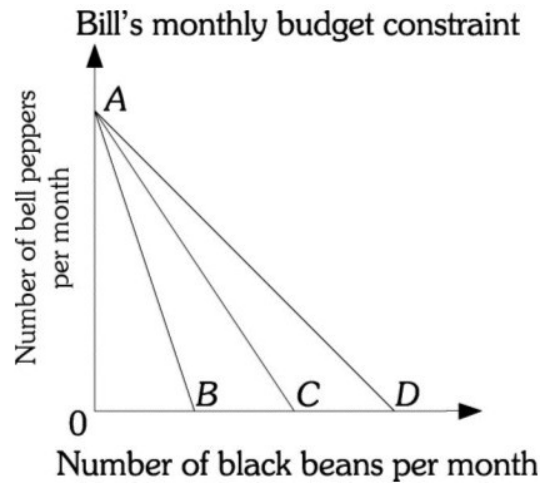
Answer: B

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

*Refer to the information provided in Figure 6.4 below to answer the questions that follow.*



**Figure 6.4**

- 30) Refer to Figure 6.4. Bill's budget constraint is AC. If the black bean price decreases, Bill's budget constraint will be
- A) AO.
  - B) AB.
  - C) AC.
  - D) AD.

Answer: D

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 31) Refer to Figure 6.4. Bill's budget constraint is AC. If the bell peppers price increases, Bill's budget constraint will be
- A) AB.
  - B) AC.
  - C) AD.
  - D) The budget constraint is not depicted on the diagram.

Answer: D

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

32) Refer to Figure 6.4. Bill's budget constraint is  $AC$ . His budget constraint would shift to  $AB$  if the price of

- A) black beans increased.
- B) black beans decreased.
- C) bell peppers increased.
- D) bell peppers decreased.

Answer: A

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

33) If a household's income doubles, its budget constraint will

- A) shift out parallel to the old one.
- B) pivot at the Y-intercept.
- C) shift in parallel to the old one.
- D) be unaffected.

Answer: A

Diff: 2

Topic: Household Choices in Output Markets

Skill: Definition

34) If a household's income falls by 10%, its budget constraint will

- A) shift out parallel to the old one.
- B) pivot at the Y-intercept.
- C) shift in parallel to the old one.
- D) be unaffected.

Answer: C

Diff: 2

Topic: Household Choices in Output Markets

Skill: Definition



Refer to the information provided in Figure 6.5 below to answer the questions that follow.

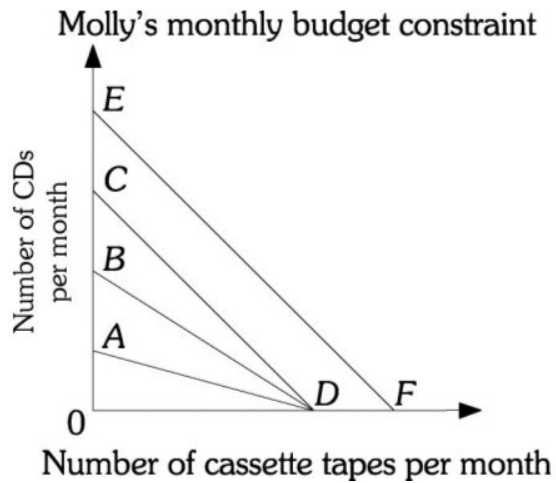


Figure 6.5

- 35) Refer to Figure 6.5. Molly's budget constraint is  $BD$ . If the price of CDs decreases, her new budget constraint becomes

A)  $AD$ .  
B)  $AO$ .  
C)  $CD$ .  
D)  $EF$ .

Answer: C

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 36) Refer to Figure 6.5. Molly's budget constraint is  $BD$ . If the price of CDs increases, her new budget constraint becomes

A)  $AD$ .  
B)  $AO$ .  
C)  $CD$ .  
D)  $EF$ .

Answer: A

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

37) Refer to Figure 6.5. Molly's budget constraint is  $CD$ . If her income increases, her new budget constraint is

- A)  $AD$ .
- B)  $BD$ .
- C)  $EF$ .
- D) not shown on this graph.

Answer: C

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

38) Refer to Figure 6.5. Molly's budget constraint is  $EF$ . If her income decreases while the price of the goods are unchanged, her new budget constraint is

- A)  $AD$ .
- B)  $BD$ .
- C)  $CD$ .
- D) not shown on this graph.

Answer: C

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

39) Refer to Figure 6.5. Molly's budget constraint is  $EF$ . If her income decreases and the price of CDs increases, her new budget constraint is

- A)  $CD$ .
- B)  $BD$ .
- C)  $AD$ .
- D) Both (B) or (C) are correct.

Answer: D

Diff: 3

Topic: Household Choices in Output Markets

Skill: Analytic

40) Refer to Figure 6.5. Molly's budget constraint is  $BD$ . Molly's income is \$400, the price of a cassette tape is \$15 and the price of a CD is \$20. At point  $B$  the consumer is buying \_\_\_\_\_ cassette tapes and \_\_\_\_\_ CDs.

- A) 0;20
- B) 20;0
- C) 20; 15
- D) 40; 30

Answer: A

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 41) Refer to Figure 6.5. Molly's budget constraint is  $BD$ . Molly's income is \$375, the price of a cassette tape is \$15 and the price of a CD is \$25. At point  $D$  the consumer is buying \_\_\_\_\_ cassette tapes and \_\_\_\_\_ CDs.

A) 0;15  
B) 25;0  
C) 25; 15  
D) 50; 30

Answer: B

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

*Refer to the information provided in Figure 6.6 below to answer the questions that follow.*

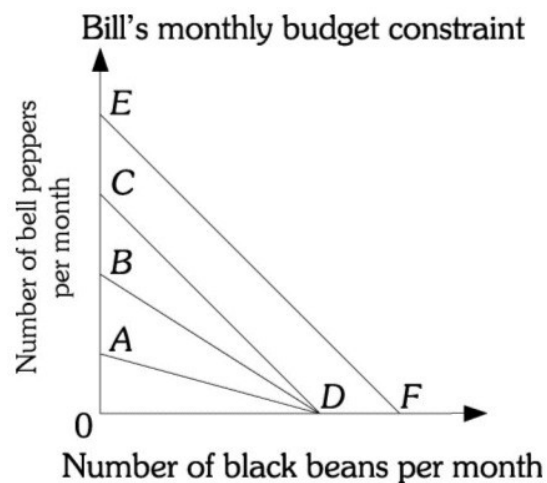


Figure 6.6

- 42) Refer to Figure 6.6. Bill's budget constraint was originally  $CD$ . If his new budget constraint is  $EF$ , then his income
- A) increased.  
B) decreased.  
C) did not change but the price of black beans decreased.  
D) did not change but the price of black beans increased.

Answer: A

Diff: 3

Topic: Household Choices in Output Markets

Skill: Conceptual

- 43) Refer to Figure 6.6. Bill's budget constraint was originally  $AD$ . If his new budget constraint is  $EF$ , then his income
- A) increased.
  - B) decreased.
  - C) increased and the price of bell peppers decreased.
  - D) decreased and the price of bell peppers increased.

Answer: C

Diff: 3

Topic: Household Choices in Output Markets

Skill: Conceptual

- 44) Refer to Figure 6.6. Bill's budget constraint is  $BD$ . If the price of bell peppers increases, Bill's new budget constraint is
- A)  $AD$ .
  - B)  $AO$ .
  - C)  $CD$ .
  - D)  $EF$ .

Answer: A

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 45) Refer to Figure 6.6. Bill's budget constraint is  $BD$ . Bill's income is \$800, the price of a bell pepper is \$1, and the price of a bag of black beans is \$1. At point B Bill is buying \_\_\_\_\_ bell peppers and \_\_\_\_\_ bags of black beans.
- A) 0; 800
  - B) 800; 0
  - C) 400; 400
  - D) 600; 200

Answer: B

Diff: 2

Topic: Household Choices in Output Markets

Skill: Analytic

- 46) Michael can buy either pizzas or submarine sandwiches. If the prices of pizza and submarine sandwiches double and so does Michael's money income, we can deduce that Michael's budget constraint will
- A) shift in but remain parallel to the old one.
  - B) shift out but remain parallel to the old one.
  - C) swivel in so that the slope of the budget constraint is doubled.
  - D) remain unchanged.

Answer: D

Diff: 3

Topic: Household Choices in Output Markets

Skill: Conceptual

- 47) Michael can buy either pizzas or submarine sandwiches. If the prices of pizza and submarine sandwiches double and Michael's money income triples, we can deduce that Michael's budget constraint will
- A) shift in but remain parallel to the old one.
  - B) shift out but remain parallel to the old one.
  - C) swivel in so that the slope of the budget constraint is doubled.
  - D) remain unchanged.

Answer: B

Diff: 3

Topic: Household Choices in Output Markets

Skill: Conceptual

- 48) Price decreases will \_\_\_\_\_ a household's choice set.
- A) increase
  - B) decrease
  - C) not change
  - D) sometimes increase and other times decrease

Answer: A

Diff: 1

Topic: Household Choices in Output Markets

Skill: Fact

- 49) A car's real cost is its opportunity cost. Opportunity cost is determined by
- A) the price of the car.
  - B) relative prices.
  - C) wealth.
  - D) the prices of the goods that are compliments to a car.

Answer: B

Diff: 3

Topic: Household Choices in Output Markets

Skill: Conceptual

Refer to the information provided in Figure 6.7 below to answer the questions that follow.

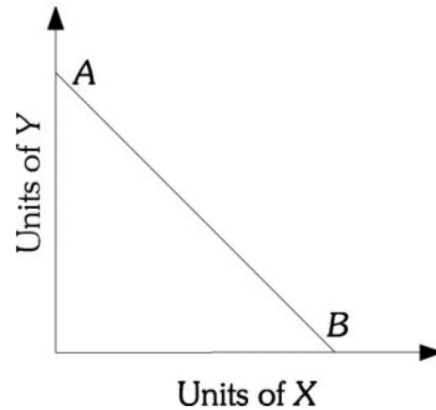


Figure 6.7

- 50) Refer to Figure 6.7. Along budget constraint  $AB$ , the price of good  $X$  is \$10 and the price of good  $Y$  is \$12. If the price of  $X$  increases to \$15, the budget constraint will
- A) pivot in at point  $B$ .
  - B) pivot out at point  $A$ .
  - C) shift in parallel to  $AB$ .
  - D) pivot in at point  $A$ .

Answer: A

Diff: 2

Topic: Household Choice in Input Markets

Skill: Analytic

## 2 True/False

- 1) When the price of a good increases, the budget constraint does not change.  
Answer: FALSE  
Diff: 1  
Topic: Household Choices in Output Markets  
Skill: Fact
- 2) When the price of a good decreases, the budget constraint shifts out parallel to the original budget constraint.  
Answer: FALSE  
Diff: 1  
Topic: Household Choices in Output Markets  
Skill: Fact
- 3) Assuming a perfectly competitive market implies that households have perfect knowledge of qualities and prices of everything available in the market.  
Answer: TRUE  
Diff: 1  
Topic: Household Choices in Output Markets  
Skill: Fact
- 4) Homogeneous products are distinguishable from each other.

Answer: FALSE

Diff: 2

Topic: Household Choices in Output Markets

Skill: Definition

- 5) Price increases cause a decrease in a household's choice set.

Answer: TRUE

Diff: 2

Topic: Household Choices in Output Markets

Skill: Fact

- 6) Income increases cause an increase in a household's choice set.

Answer: TRUE

Diff: 2

Topic: Household Choices in Output Markets

Skill: Fact

## 6.2 The Basis of Choice: Utility

### 1 Multiple Choice

- 1) Marginal utility is the \_\_\_\_\_ satisfaction gained by consuming \_\_\_\_\_ of a good.

A) total; all units

B) total; one more unit

C) additional; all units

D) additional; one more unit

Answer: D

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Definition

- 2) Kathy eats five slices of pizza on a Saturday night but admits each slice of pizza doesn't taste as good as the previous one. This suggests that for Kathy the

A) marginal utility of a slice of pizza is positive but decreasing.

B) marginal utility of a slice of pizza is negative.

C) total utility of slices of pizza is declining.

D) total utility of slices of pizza is increasing by larger and larger increments.

Answer: A

Diff: 3

Topic: The Basis of Choice: Utility

Skill: Conceptual

Refer to the information provided in Figure 6.8 below to answer the questions that follow.

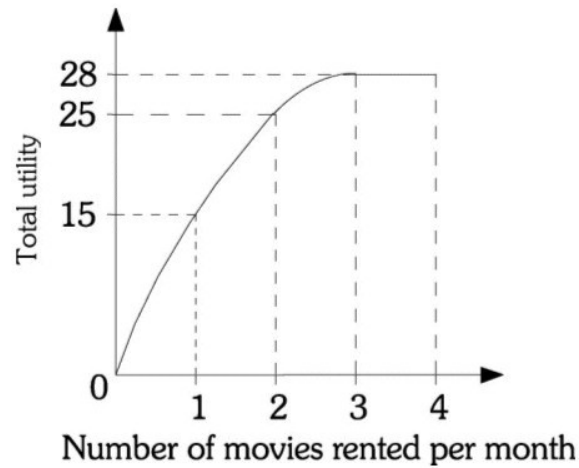


Figure 6.8

3) Refer to Figure 6.8. The marginal utility of the first movie rental is

- A) 0.
- B) 15.
- C) 25.
- D) 40.

Answer: B

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Analytic

4) Refer to Figure 6.8. The marginal utility of the fourth movie rental is

- A) 0.
- B) 3.
- C) 25.
- D) 28.

Answer: A

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Analytic

5) Refer to Figure 6.8. The \_\_\_\_\_ movie rental has a marginal utility of zero.

- A) first
- B) second
- C) third
- D) fourth

Answer: D

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Analytic



6) Refer to Figure 6.8. The total utility of the third movie is \_\_\_\_\_ and its marginal utility is \_\_\_\_\_.

- A) 15; 0
- B) 25; 10
- C) 28; 3
- D) 28; 0

Answer: C

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Analytic

7) The law of diminishing marginal utility is effective when marginal utility is

- A) positive and increasing.
- B) positive and decreasing.
- C) initially zero and then increasing.
- D) initially zero and then decreasing.

Answer: B

Diff: 3

Topic: The Basis of Choice: Utility

Skill: Analytic

*Refer to the information provided in Figure 6.9 below to answer the questions that follow.*

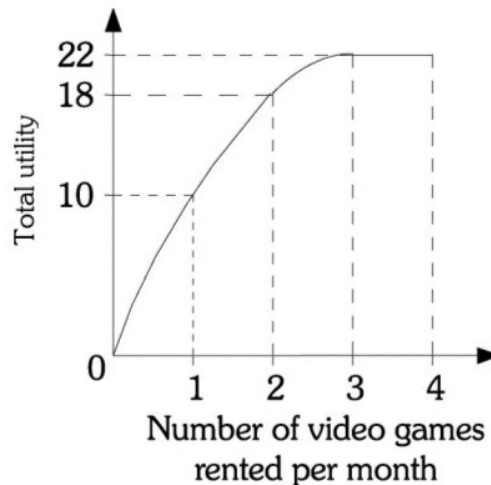


Figure 6.9

8) Refer to Figure 6.9. The marginal utility of the second video game rental is

- A) 8.
- B) 10.
- C) 25.
- D) 40.

Answer: A

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Analytic

9) Refer to Figure 6.9. The marginal utility of the fourth video game rental is

- A) 0.
- B) 4.
- C) 8.
- D) 22.

Answer: A

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Analytic

10) Refer to Figure 6.9. The \_\_\_\_\_ video game rental has a marginal utility of zero.

- A) first
- B) second
- C) third
- D) fourth

Answer: D

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Analytic

*Refer to the information provided in Table 6.1 below to answer the questions that follow.*

**Table 6.1**

<b>Number of Hamburgers per Day</b>	<b>Total Utility</b>	<b>Marginal Utility</b>
1	30	4
2	52	
3	67	
4	76	
5		
<b>Number of Sodas per Day</b>	<b>Total Utility</b>	<b>Marginal Utility</b>
1	20	7
2	35	
3	47	
4	57	
5		

11) Refer to Table 6.1. The marginal utility of the second hamburger per day is

- A) 10.
- B) 15.
- C) 22.
- D) 52.

Answer: C

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Analytic

12) Refer to Table 6.1. The marginal utility of the third hamburger per day is

- A) 5.
- B) 15.
- C) 22.
- D) 67.

Answer: B

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Analytic

13) Refer to Table 6.1. Diminishing marginal utility sets in after the \_\_\_\_\_ soda per day.

- A) first
- B) second
- C) third
- D) fourth

Answer: A

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Analytic

14) Refer to Table 6.1. The total utility of five hamburgers per day is

- A) 76.
- B) 80.
- C) 96.
- D) indeterminate from this information.

Answer: B

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Analytic

15) Refer to Table 6.1. The total utility of five sodas per day is

- A) 35.
- B) 64.
- C) 92.
- D) indeterminate from this information.

Answer: B

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Analytic

- 16) Refer to Table 6.1. If the price of a soda is \$2, the price of a hamburger is \$6, and George has \$14 of income, George's utility maximizing combination of sodas and hamburgers per day is
- A) 1 soda and 2 hamburgers.
  - B) 4 sodas and 1 hamburger.
  - C) 3 sodas and 1.5 hamburgers.
  - D) indeterminate from this information.

Answer: B

Diff: 3

Topic: The Basis of Choice: Utility

Skill: Analytic

- 17) Refer to Table 6.1. Assume that a store is giving hamburgers and sodas away for free. Consumers can have as many sodas and hamburgers as they want, but the food has to be consumed one unit at a time. If George has already had one soda and two hamburgers, then George should

- A) next consume a soda to maximize his utility.
- B) next consume a hamburger to maximize his utility.
- C) be indifferent between consuming the second soda or the third hamburger.
- D) consume neither another soda nor another hamburger to maximize his utility.

Answer: C

Diff: 3

Topic: The Basis of Choice: Utility

Skill: Conceptual

Refer to the information provided in Table 6.2 below to answer the questions that follow.

Table 6.2

Number of Candy Bars per Day	Total Utility	Marginal Utility
1	40	5
2	75	
3	100	
4	115	
5		
Number of Hot Dogs per Day	Total Utility	Marginal Utility
1	30	6
2	54	
3	72	
4	84	
5		

18) Refer to Table 6.2. The marginal utility of the second candy bar per day is

- A) 10.
- B) 15.
- C) 35.
- D) 55.

Answer: C

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Analytic

19) Refer to Table 6.2. Diminishing marginal utility sets in after the \_\_\_\_\_ candy bar per day.

- A) first
- B) second
- C) third
- D) fourth

Answer: A

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Analytic

20) Refer to Table 6.2. The total utility of five candy bars per day is

- A) 115.
- B) 120.
- C) 130.
- D) indeterminate from this information.

Answer: B

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Analytic

- 21) Refer to Table 6.2. If the price of a candy bar is \$1, the price of a hot dog is \$2, and Aaron has \$6 of income, Aaron's utility maximizing combination of sodas and hamburgers per day is
- A) 1 candy bar and 2 hot dogs.
  - B) 4 candy bars and 1 hot dog.
  - C) 2 candy bars and 1.5 hot dogs.
  - D) indeterminate from this information.

Answer: B

Diff: 3

Topic: The Basis of Choice: Utility

Skill: Analytic

- 22) Richard is consuming X and Y so that he is spending his entire income and  $MU_x/P_x = 6$  and  $MU_y/P_y = 10$ . To maximize utility, he should
- A) continue to consume the same amount of X and Y since he is already maximizing utility.
  - B) consume less of both X and Y.
  - C) consume more X and less Y.
  - D) consume less X and more Y.

Answer: D

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Analytic

- 23) Jon is consuming X and Y so that he is spending his entire income and  $MU_x/P_x = 8$  and  $MU_y/P_y = 4$ . To maximize utility, he should consume
- A) the same amount of X and Y since he is already maximizing utility.
  - B) less of both X and Y.
  - C) more X and less Y.
  - D) less X and more Y.

Answer: C

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Analytic

- 24) Jon is consuming X and Y so that he is spending his entire income and  $MU_x/P_x = 4$  and  $MU_y/P_y = 4$ . To maximize utility, he should consume
- A) the same amount of X and Y since he is already maximizing utility.
  - B) less of both X and Y.
  - C) more X and less Y.
  - D) less X and more Y.

Answer: A

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Analytic

25) If  $MU_x/P_x < MU_y/P_y$ , then

- A) spending a dollar less on Y and a dollar more on X increases utility.
- B) spending a dollar less on X and a dollar more on Y increases utility.
- C) X is more expensive than Y.
- D) Y is more expensive than X.

Answer: B

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Definition

26) Sue is maximizing her utility. Her  $MU_x/P_x=10$  and  $MU_y=40$ . Then the price of Y must be

- A) \$1.
- B) \$4.
- C) \$10.
- D) \$40.

Answer: B

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Conceptual

27) Ellen is spending her entire income on goods X and Y. Her marginal utility from the last units of X and Y that she consumes is 25. Ellen's utility is only maximized if

- A) the prices of X and Y are the same.
- B) the price of good X is twice that of good Y.
- C) the price of good Y is twice that of good X.
- D) We cannot determine whether Ellen is maximizing her utility.

Answer: A

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Conceptual

28) Ellie is spending her entire income on goods X and Y. Her marginal utility from the last unit of X is 100 and the marginal utility from the last unit of Y that she consumes is 50. Ellie's utility is only maximized if

- A) the prices of X and Y are the same.
- B) the price of good X is twice that of good Y.
- C) the price of good Y is twice that of good X.
- D) We cannot determine whether Ellie is maximizing her utility.

Answer: B

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Conceptual

Refer to the information provided in Figure 6.10 below to answer the questions that follow.

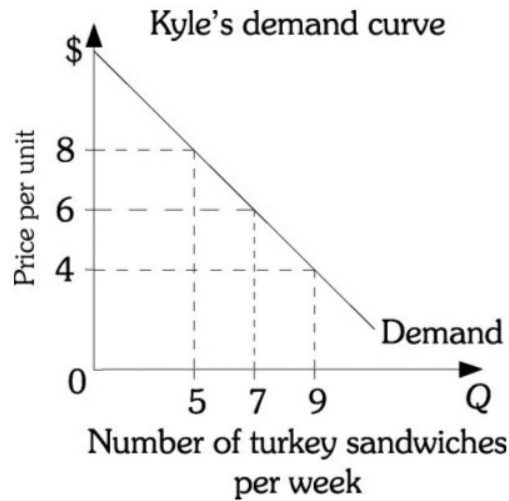


Figure 6.10

- 29) Refer to Figure 6.10. The current price of a turkey sandwich is \$6. If Kyle is currently buying five turkey sandwiches a week, he \_\_\_\_\_ maximizing utility because the marginal utility \_\_\_\_\_ than its price.

A) is; from the fifth sandwich is greater  
 B) is; from the fifth sandwich is less  
 C) is not; gained from the fifth sandwich is less  
 D) is not; gained from the fifth sandwich is greater

Answer: D

Diff: 3

Topic: The Basis of Choice: Utility

Skill: Conceptual

- 30) Refer to Figure 6.10. The current price of a turkey sandwich is \$6. If Kyle is currently buying nine turkey sandwiches a week, he \_\_\_\_\_ maximizing utility because the marginal utility \_\_\_\_\_ than its price.

A) is; from the ninth sandwich is greater  
 B) is; from the ninth sandwich is less  
 C) is not; gained from the ninth sandwich is less  
 D) is not; gained from the ninth sandwich is greater

Answer: C

Diff: 3

Topic: The Basis of Choice: Utility

Skill: Conceptual



- 31) Refer to Figure 6.10. Kyle would increase his consumption of turkey sandwiches from 7 to 9 per week if their price fell from \$6 to \$4. This illustrates the idea of
- A) consumer surplus.
  - B) the law of diminishing marginal utility.
  - C) cross-price elasticity of demand.
  - D) technical efficiency.

Answer: B

Diff: 3

Topic: The Basis of Choice: Utility

Skill: Conceptual

- 32) The marginal utility of the first cup of coffee that Tom drinks in the morning is worth \$2.00. The marginal utility of the 9th cup of coffee he drinks is positive while the marginal utility of the 10th cup of coffee he drinks in the morning is worth \$0. This implies that at a price of \$0, Tom would drink
- A) zero cups of coffee per morning.
  - B) at most 10 cups of coffee per morning.
  - C) more than 10 cups of coffee per morning, but the actual number is indeterminate from this information.
  - D) an infinite number of cups of coffee each morning.

Answer: B

Diff: 3

Topic: The Basis of Choice: Utility

Skill: Conceptual

- 33) For Matthew, the marginal utility of the 9th soda in a day is positive and the marginal utility of the 10th soda in a day is zero. This
- A) implies that Matthew's demand curve for sodas per day will become upward sloping at 10 sodas per day.
  - B) is impossible because each additional unit of consumption of any good must provide positive marginal utility.
  - C) implies that at a zero price Matthew's demand curve will intersect the quantity axis at 10.
  - D) implies that Matthew maximizes utility by consuming 9 sodas per day.

Answer: C

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Definition

- 34) Total utility is
- A) the total amount of satisfaction yielded by the consumption of a good or service.
  - B) the additional satisfaction gained by consuming one more unit of something.
  - C) used to compare different people's likes and dislikes.
  - D) relatively easy to measure.

Answer: A

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Definition

- 35) The law of diminishing marginal utility refers to
- A) a consumer's decrease in total satisfaction as she consumes more units of a good.
  - B) a consumer's decrease in additional satisfaction as she consumes more and more units of a good.
  - C) the idea that total utility is negative.
  - D) the idea that marginal utility is negative.

Answer: B

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Definition

- 36) We can state the utility-maximizing rule in words in the following way: A person maximizes utility when she equalizes the \_\_\_\_\_ across products.
- A) total utility
  - B) total utility per dollar spent
  - C) marginal utility
  - D) marginal utility per dollar spent

Answer: D

Diff: 3

Topic: The Basis of Choice: Utility

Skill: Conceptual

- 37) A utility-maximizing consumer buys so as to make \_\_\_\_\_ for all pairs of goods.
- A)  $P_x(MU_x) = P_y(MU_y)$
  - B)  $TU_x/P_x = TU_y/P_y$
  - C)  $MU_x/MU_y = P_x/P_y$
  - D)  $MU_x = MU_y$

Answer: C

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Analytic

- 38) The ratio of the marginal utility of coffee to the marginal utility of donuts is four for an individual maximizing utility. This implies that
- A) a donut is four times more valuable than a cup of coffee.
  - B) the coffee to donuts price ratio is one to four.
  - C) the coffee to donuts price ratio is four to one.
  - D) this person always eats donuts with coffee.

Answer: C

Diff: 3

Topic: The Basis of Choice: Utility

Skill: Conceptual

- 39) Kathleen likes avocado and crab dip. After eating avocado and crab dip with four crackers, she switches to cheese with crackers. We can conclude that
- A) the avocado and crab dip cannot have tasted that good.
  - B) the avocado and crab dip with crackers now has a marginal utility of zero.
  - C) at this point cheese and crackers have a higher marginal utility per dollar spent than that of avocado and crab dip with crackers.
  - D) Kathleen is no longer maximizing her utility.

Answer: C

Diff: 3

Topic: The Basis of Choice: Utility

Skill: Conceptual

- 40) The law of diminishing marginal utility implies that
- A) demand curves always slope downward and to the right.
  - B) supply curves always slope upward and to the right.
  - C) a consumer will always buy positive amounts of all goods.
  - D) total utility will always increase by an increasing amount as consumption increases.

Answer: A

Diff: 2

Topic: The Basis of Choice: Utility

Skill: Definition

- 41) The diamond/water paradox states that things with the \_\_\_\_\_ value in use frequently have \_\_\_\_\_ value in exchange.
- A) least; the least
  - B) least; little or no
  - C) greatest; little or no
  - D) greatest; the greatest

Answer: C

Diff: 1

Topic: The Basis of Choice: Utility

Skill: Definition

## 2 True/False

- 1) The law of diminishing marginal utility implies that as a household consumes more of a product, its total utility will increase by smaller amounts -assuming marginal utility remains positive.

Answer: TRUE

Diff: 1

Topic: The Basis of Choice: Utility

Skill: Fact

- 2) The law of diminishing marginal utility implies that total utility never reaches a maximum.

Answer: FALSE

Diff: 1

Topic: The Basis of Choice: Utility

Skill: Fact

- 3) When consumers maximize utility, they are equating the ratio of marginal utility to price across all goods consumed.  
Answer: TRUE  
Diff: 1  
Topic: The Basis of Choice: Utility  
Skill: Fact
- 4) A negative marginal utility implies negative total utility.  
Answer: FALSE  
Diff: 1  
Topic: The Basis of Choice: Utility  
Skill: Fact
- 5) If  $MU_x/P_x$  exceeds  $MU_y/P_y$ , then a household can increase its utility by spending more on X and less on Y.  
Answer: TRUE  
Diff: 1  
Topic: The Basis of Choice: Utility  
Skill: Fact
- 6) Assuming well-defined indifference curves, when marginal utility is zero, total utility is at a minimum.  
Answer: FALSE  
Diff: 2  
Topic: The Basis of Choice: Utility  
Skill: Fact
- 7) The diamond/water paradox helps to illustrate the concept of marginal value.  
Answer: TRUE  
Diff: 1  
Topic: The Basis of Choice: Utility  
Skill: Fact

## 6.3 Income and Substitution Effects

### 1 Multiple Choice

- 1) A rise in the price of Pepsi that causes a household to shift its purchasing pattern toward Coke and away from Pepsi is the \_\_\_\_\_ effect of a price change.  
A) income  
B) substitution  
C) complementary  
D) diminishing marginal utility  
Answer: B  
Diff: 1  
Topic: Income and Substitution Effects  
Skill: Fact

- 2) For normal goods, the substitution and income effects of a price decrease will
- A) both decrease the quantity of the good demanded.
  - B) both increase the quantity of the good demanded.
  - C) the substitution effect will increase the quantity of the good demanded while the income effect will decrease the quantity of the good demanded.
  - D) the substitution effect will decrease the quantity of the good demanded while the income effect will increase the quantity of the good demanded.

Answer: B

Diff: 2

Topic: Income and Substitution Effects

Skill: Definition

- 3) For inferior goods, the substitution and income effects of a price increase will
- A) both decrease the quantity of the good demanded.
  - B) both increase the quantity of the good demanded.
  - C) the substitution effect will increase the quantity of the good demanded while the income effect will decrease the quantity of the good demanded.
  - D) the substitution effect will decrease the quantity of the good demanded while the income effect will increase the quantity of the good demanded.

Answer: D

Diff: 2

Topic: Income and Substitution Effects

Skill: Definition

- 4) A price change would have the largest income effect on a
- A) magazine.
  - B) desktop computer.
  - C) piece of clothing.
  - D) car.

Answer: D

Diff: 3

Topic: Income and Substitution Effects

Skill: Conceptual

- 5) Assuming that charitable giving is a normal good, the income effect of a decrease in personal tax rates would lead to
- A) less giving because giving to charity would become more expensive relative to other goods.
  - B) more giving because giving to charity would become less expensive relative to other goods.
  - C) more giving because households would have more disposable income.
  - D) less giving because households would spend that money on luxury goods.

Answer: C

Diff: 3

Topic: Income and Substitution Effects

Skill: Conceptual

- 6) Related to the *Economics in Practice* on p.118 : Suppose Store ABC runs an ad claiming to have "low prices everyday". They even demonstrate that the total expenditure for a basket of groceries is less at their store than at any of their competitors. Which of the following statements is NOT true?
- A) You would clearly be better off shopping at Store ABC.
  - B) Your preferences may not be consistent with the basket used by Store ABC (in their example), thus it is not clear whether or not you would be better off shopping at Store ABC or not.
  - C) Even if your preferences are generally consistent with the basket used by Store ABC, it may still be possible for you to substitute other similar goods for those in the basket used by Store ABC (in their example) and thus spend less at another store.
  - D) All of the above statements are true.

Answer: A

Diff: 2

Topic: Household Choice in Input Markets: Economics in Practice

Skill: Conceptual

## 2 True/False

- 1) Ignoring income effects, an increase in the wage rate will cause an increase in labor supply.

Answer: TRUE

Diff: 1

Topic: Income and Substitution Effects

Skill: Fact

## 6.4 Household Choice in Input Markets

### 1 Multiple Choice

Refer to the information provided in Figure 6.11 below to answer the question that follows.

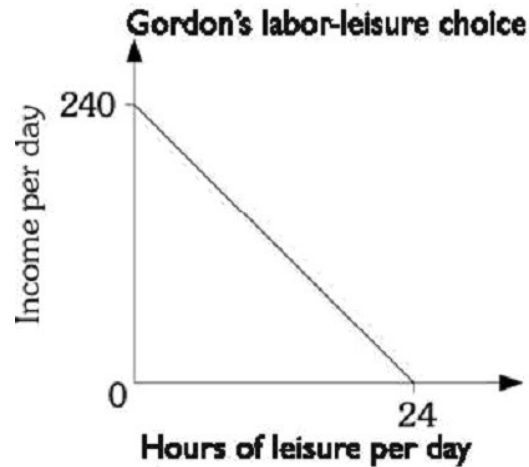


Figure 6.11

1) Refer to Figure 6.11. Gordon's opportunity cost of one hour of leisure is

- A) \$10.
- B) \$24.
- C) \$240.
- D) indeterminate from this information.

Answer: A

Diff: 2

Topic: Household Choice in Input Markets

Skill: Analytic

2) Assume leisure is a normal good. The substitution effect of a wage decrease implies a \_\_\_\_\_ demand for leisure and a \_\_\_\_\_ labor supply.

- A) lower; higher
- B) higher; lower
- C) higher; higher
- D) lower; lower

Answer: B

Diff: 3

Topic: Household Choice in Input Markets

Skill: Conceptual

- 3) If the substitution effect of a wage change outweighs the income effect of a wage change, the labor-supply curve is
- A) upward sloping.
  - B) horizontal.
  - C) vertical.
  - D) backward bending.

Answer: A

Diff: 3

Topic: Household Choice in Input Markets

Skill: Conceptual

- 4) Assume leisure is an inferior good instead of a normal good. The income effect of a wage increase will lead to a \_\_\_\_\_ demand for leisure and a \_\_\_\_\_ labor supply.
- A) higher; higher
  - B) higher; lower
  - C) lower; higher
  - D) lower; lower

Answer: C

Diff: 3

Topic: Household Choice in Input Markets

Skill: Conceptual

- 5) Assuming that leisure is a normal good, if an individual's labor supply curve is backward bending, then the
- A) income effect outweighs the substitution effect at higher wages.
  - B) substitution effect outweighs the income effect at higher wages.
  - C) income effect and the substitution effects are equal.
  - D) income effect is zero.

Answer: A

Diff: 2

Topic: Household Choice in Input Markets

Skill: Fact

- 6) Related to the *Economics in Practice* on p. 121: By offering a broad range of high quality services for employees on-site, Google has
- A) made going to work less attractive to its employees.
  - B) decreased the marginal utility of work to its employees.
  - C) decreased the marginal utility of leisure to its employees.
  - D) had no impact on the labor-leisure choice of its employees.

Answer: A

Diff: 1

Topic: Household Choice in Input Markets: Economics in Practice

Skill: Fact



## 6.5 Appendix

### 1 Multiple Choice

- 1) Harry tells you that he prefers Pepsi to Coke, Coke to 7-UP, and 7-UP to Pepsi. This violates what assumption made when analyzing consumer preferences?
- A) That more is better.
  - B) That there is a diminishing marginal rate of substitution.
  - C) That consumers are rational.
  - D) That consumers are able to choose among all the combinations of goods and services available.

Answer: C

Diff: 3

Topic: Appendix: Indifference Curves

Skill: Conceptual

- 2) A consumer satisfies the condition \_\_\_\_\_ when her indifference curve is just tangent to her budget constraint.
- A)  $MU_x = MU_y$
  - B)  $TU_x = TU_y$
  - C)  $MU_x/P_x = MU_y/P_y$
  - D)  $TU_x/P_x = TU_y/P_y$

Answer: C

Diff: 1

Topic: Appendix: Indifference Curves

Skill: Fact

- 3) Assume Sally is initially in equilibrium and that X and Y are normal goods for her. Then the price of X rises. For Sally to move to a new equilibrium point her consumption of
- A) X must remain constant, but her consumption of Y must increase.
  - B) X must decrease.
  - C) X must increase.
  - D) both X and Y must increase.

Answer: B

Diff: 2

Topic: Appendix: Indifference Curves

Skill: Analytic

- 4) An assumption underlying indifference curve analysis is that  $MU_x/MU_y$  \_\_\_\_\_ as more of X and less of Y is consumed.
- A) increases
  - B) decreases
  - C) remains constant
  - D) always equals one

Answer: B

Diff: 2

Topic: Appendix: Indifference Curves

Skill: Analytic

Refer to the information provided in Figure 6.13 below to answer the question that follows.

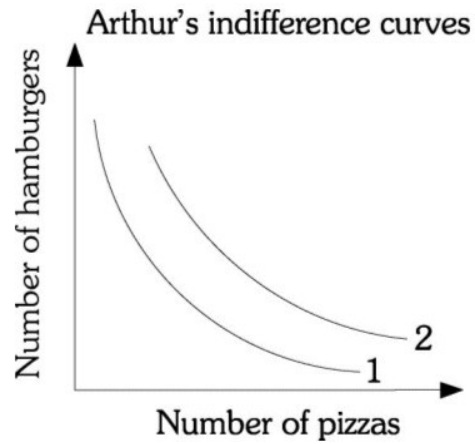


Figure 6.13

- 5) Refer to Figure 6.13. If Arthur moves from indifference curve 1 to indifference curve 2, then Arthur's
- A) marginal utility increases.
  - B) total utility increases.
  - C) total income decreases.
  - D) prices of the goods increase.

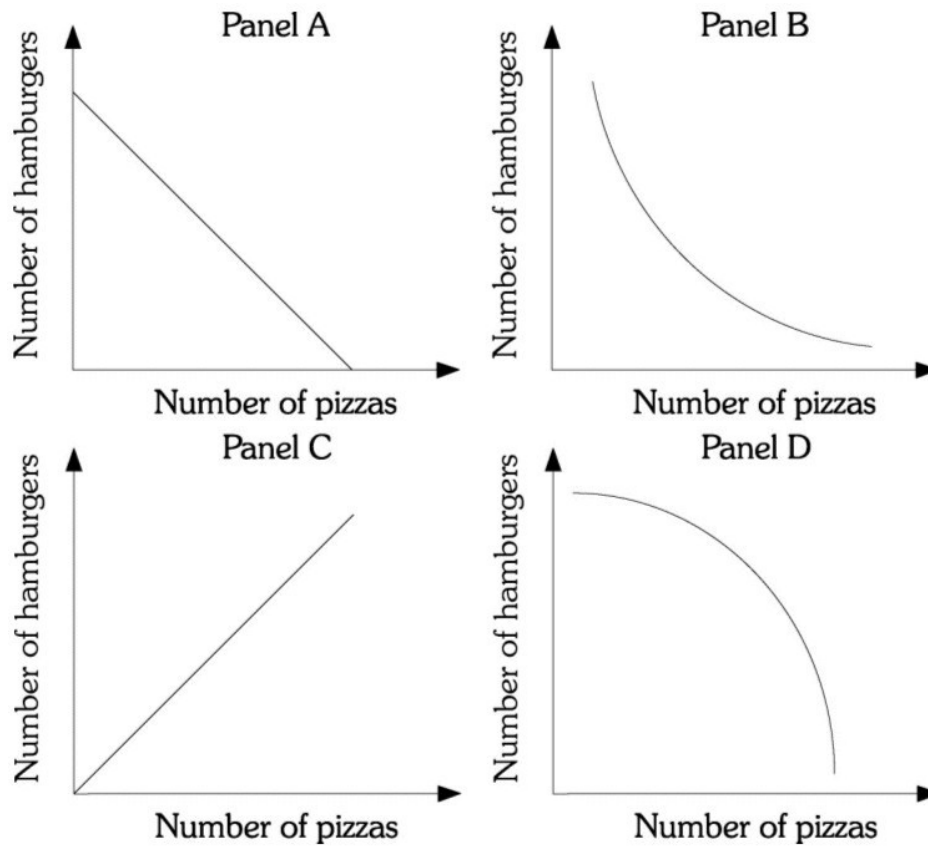
Answer: B

Diff: 2

Topic: Appendix: Indifference Curves

Skill: Definition

Refer to the information provided in Figure 6.14 below to answer the questions that follow.



**Figure 6.14**

- 6) Refer to Figure 6.14. Assume Ellen has two products available, pizza and hamburgers. Ellen is always willing to trade one pizza for one hamburger regardless of how many pizzas and hamburgers she has. The curve in Panel \_\_\_\_\_ represents her indifference curve.
- A) A
  - B) B
  - C) C
  - D) D

Answer: A

Diff: 3

Topic: Appendix: Indifference Curves

Skill: Conceptual

7) Refer to Figure 6.14. Assume Ellen has two products available, pizza and hamburgers. Ellen must be compensated with more pizzas as she gives up more burgers. The curve in Panel \_\_\_\_\_ represents her indifference curve.

- A) A
- B) B
- C) C
- D) D

Answer: B

Diff: 3

Topic: Appendix: Indifference Curves

Skill: Conceptual

8) As you move up an indifference curve, the absolute value of the slope

- A) increases.
- B) decreases.
- C) remains constant.
- D) initially increases and then decreases.

Answer: A

Diff: 1

Topic: Appendix: Indifference Curves

Skill: Fact

Refer to the information provided in Figure 6.15 below to answer the questions that follow.

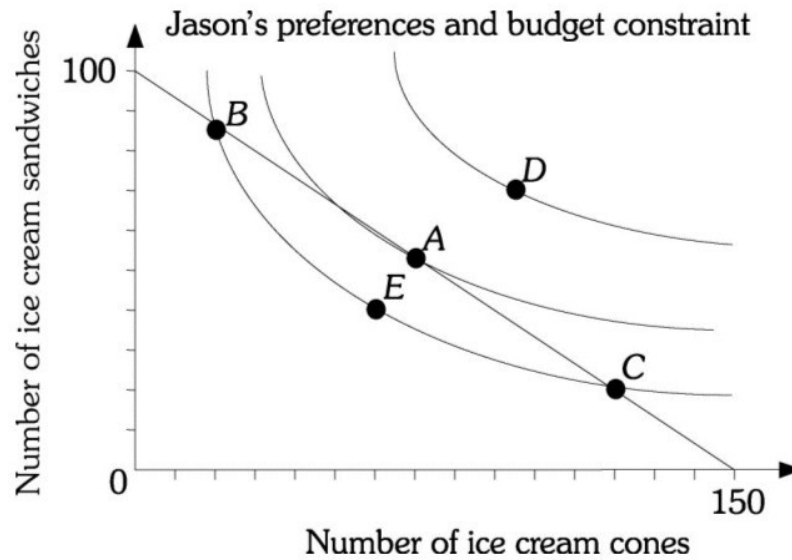


Figure 6.15

- 9) Refer to Figure 6.15. If the price of an ice cream cone is \$2, Jason's income is
- A) \$75.
  - B) \$250.
  - C) \$300.
  - D) indeterminate because the price of ice cream sandwiches is not given.

Answer: C

Diff: 2

Topic: Appendix: Indifference Curves

Skill: Analytic

- 10) Refer to Figure 6.15. Jason maximizes utility at point
- A) A.
  - B) B.
  - C) C.
  - D) D.

Answer: A

Diff: 2

Topic: Appendix: Indifference Curves

Skill: Analytic

- 11) Refer to Figure 6.15. The slope of the indifference curve is the ratio of the
- A) marginal utility of ice cream cones to the marginal utility of ice cream sandwiches.
  - B) marginal utility of ice cream sandwiches to the marginal utility of ice cream cones.
  - C) total utility of ice cream cones to the total utility of ice cream sandwiches.
  - D) total utility of ice cream sandwiches to the total utility of ice cream cones.

Answer: A

Diff: 2

Topic: Appendix: Indifference Curves

Skill: Definition

- 12) Refer to Figure 6.15. At point A, the slope of the indifference curve is
- A) -0.67.
  - B) -1.5.
  - C) -3.0.
  - D) indeterminate because the marginal utilities are unknown.

Answer: A

Diff: 2

Topic: Appendix: Indifference Curves

Skill: Analytic

- 13) Refer to Figure 6.15. If the price of an ice cream cone is \$2, the price of ice cream sandwiches is
- A) \$2.
  - B) \$3.
  - C) \$50.
  - D) \$100.

Answer: B

Diff: 2

Topic: Appendix: Indifference Curves

Skill: Analytic

Refer to the information provided in Figure 6.16 below to answer the question that follows.

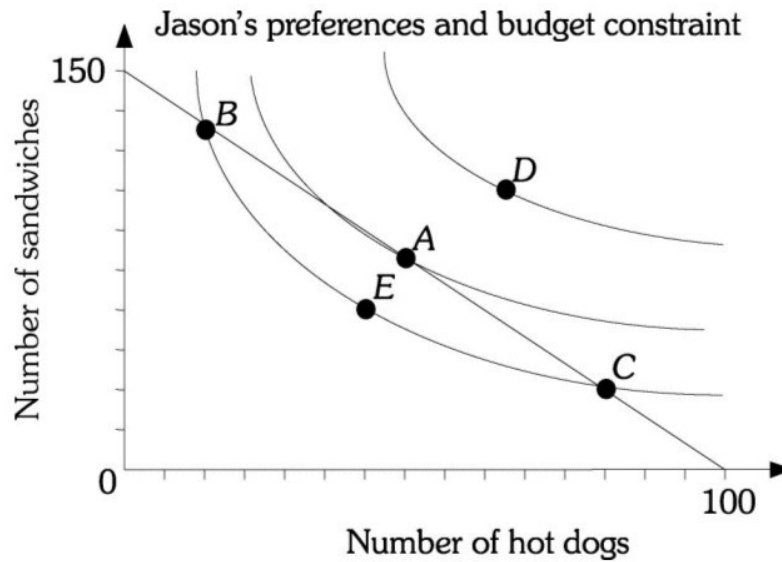


Figure 6.16

14) Refer to Figure 6.16. If the price of a hot dog is \$2, Jason's income is

- A) \$25.
- B) \$200.
- C) \$300.
- D) indeterminate because the price of sandwiches is not given.

Answer: B

Diff: 2

Topic: Appendix: Indifference Curves

Skill: Analytic

15) Refer to Figure 6.16. Why was Jason NOT maximizing his utility at point C?

- A) He is not spending his entire budget.
- B) His marginal utility per dollar spent on the last sandwich is greater than his marginal utility per dollar spent on his last hot dog.
- C) His marginal utility per dollar spent on the last sandwich is less than his marginal utility per dollar spent on his last hot dog.
- D) He is maximizing his utility at point C.

Answer: B

Diff: 3

Topic: Appendix: Indifference Curves

Skill: Conceptual

16) Refer to Figure 6.16. The highest indifference curve depicted is the one on which point D lies. Why is Jason NOT maximizing his utility at point D?

- A) He cannot afford point D.
- B) His marginal utility per dollar spent on the last sandwich is greater than his marginal utility per dollar spent on his last hot dog.
- C) His marginal utility per dollar spent on the last sandwich is less than his marginal utility per dollar spent on his last hot dog.
- D) He is maximizing his utility at point C.

Answer: A

Diff: 2

Topic: Appendix: Indifference Curves

Skill: Conceptual

17) We derive the demand curve for X from indifference curves and a budget constraint by changing the

- A) level of income.
- B) price of X.
- C) price of Y.
- D) consumers' preferences.

Answer: B

Diff: 3

Topic: Appendix: Indifference Curves

Skill: Conceptual

## 2 True/False

1) Assuming the properties of normal indifference curves, a consumer will maximize his utility where his indifference curve is just tangent to his budget constraint.

Answer: TRUE

Diff: 1

Topic: Appendix: Indifference Curves

Skill: Fact



*Principles of Microeconomics, 9e - Test Item File 2 (Case/Fair/Oster)*  
**Chapter 7 The Production Process: The Behavior of Profit-Maximizing Firms**

**7.1 The Behavior of Profit Maximizing Firms**

**1 Multiple Choice**

1) Total revenue minus total cost equals

- A) the rate of return.
- B) marginal revenue.
- C) profit.
- D) net cost.

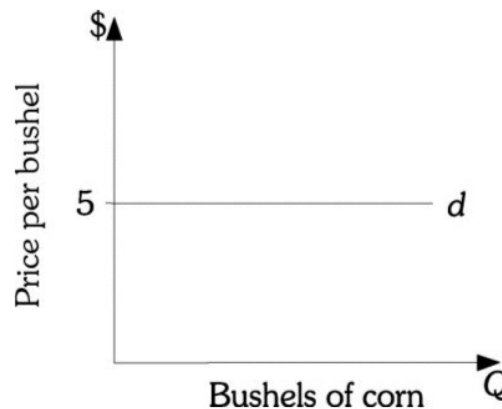
Answer: C

Diff: 1

Topic: Behavior of Profit-Maximizing Firms

Skill: Fact

*Refer to the information provided in Figure 7.1 below to answer the following questions.*



**Figure 7.1**

2) Refer to Figure 7.1. A corn producer produces 80 bushels of corn and sells each bushel at \$5. The cost of producing each unit bushel is \$2. This corn producer's total revenue is \_\_\_\_\_ and profit if \_\_\_\_\_ .

- A) \$160; \$0
- B) \$240; \$80
- C) \$400; \$240
- D) \$400; \$160

Answer: C

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Analytic

3) Refer to Figure 7.1. A corn producer's total revenue is \$1,000. If she sells each bushel of corn for \$5, she must be selling \_\_\_\_\_ bushels of corn.

- A) 200
- B) 450
- C) 900
- D) 4,500

Answer: A

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Analytic

4) Refer to Figure 7.1. A corn producer's profit is \$1500 and it is producing 500 bushels of output. Then he must have a cost per bushel of

- A) 1
- B) 2
- C) 3
- D) 4

Answer: B

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Analytic

5) The Wax Works sells 500 candles at a price of \$10 per candle. The Wax Works' total economic costs for producing 500 candles are \$2,000. The Wax Works' economic profit is

- A) \$2,000.
- B) \$3,000.
- C) \$5,000.
- D) indeterminate from this information.

Answer: B

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Analytic

6) The Wax Works sells 500 candles at a price of \$5 per candle. The Wax Works' total economic costs for producing 500 candles are \$3,000. The Wax Works' economic profit is

- A) -\$3,000.
- B) -\$500.
- C) \$2,500.
- D) \$3000

Answer: B

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Analytic

7) Firms must make all of the following decisions EXCEPT

- A) how much output to supply.
- B) which production technology to use.
- C) how much of each input to demand.
- D) what price to charge for its output.

Answer: D

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Definition

8) Economic costs include

- A) both a normal rate of return on investment and the opportunity cost of each factor of production.
- B) the direct costs of hiring all factors of production.
- C) the opportunity cost of each factor of production minus any interest charges paid on borrowed funds.
- D) total revenue minus accounting profit.

Answer: A

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Definition

9) The Sweet Success Bakery sells 500 cakes at a price of \$10 per cake. Its total economic costs for producing 500 cakes are \$500. The Sweet Success Bakery's economic profits are

- A) \$100.
- B) \$3,500.
- C) \$4,500.
- D) indeterminate from this information.

Answer: C

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Analytic

10) The Oh So Humble Bakery sells 300 muffins at a price of \$1 per muffin. Its explicit costs for producing 300 muffins are \$250. The Oh So Humble Bakery's economic profits are

- A) \$35.
- B) \$50.
- C) \$250.
- D) indeterminate from this information.

Answer: D

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Analytic

- 11) The Oh So Humble Bakery sells 300 muffins at a price of \$1 per muffin. Its explicit costs for producing 300 muffins are \$250. If the bakery is earning a normal rate of return, then its implicit costs must be

A) \$100.  
B) \$200.  
C) \$300.  
D) \$400

Answer: B

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Analytic

- 12) A firm \_\_\_\_\_ if it earns zero economic profit.

A) earns a negative rate of return  
B) will leave the industry  
C) earns a positive but below normal rate of return  
D) earns exactly a normal rate of return

Answer: D

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Definition

- 13) You own a building that has four possible uses: a cafe, a craft store, a hardware store, and a bookstore. The building's value in each use is \$2,000; \$3,000; \$4,000; and \$5,000, respectively. You decide to open a hardware store. The opportunity cost of using this building for a hardware store is

A) \$2,000, the value if the building is used as a cafe.  
B) \$3,000, the value if the building is used as a craft store.  
C) \$10,000, the sum of the values if the building is used for a cafe, a craft store, or a bookstore.  
D) \$1,000, the difference in value if the building were used as a bookstore and its actual use.

Answer: D

Diff: 3

Topic: Behavior of Profit-Maximizing Firms

Skill: Conceptual

*Refer to Scenario 7.1 below to answer the questions that follow.*

SCENARIO 7.1: You own and are the only employee of a company that writes computer software that gamblers use to collect sports data. Last year your total revenue was \$90,000. Your costs for equipment, rent, and supplies were \$50,000. To start this business you invested an amount of your own capital that could pay you a \$40,000 a year return.

14) Refer to Scenario 7.1. During the year your economic costs were

- A) \$40,000.
- B) \$60,000.
- C) \$90,000.
- D) \$100,000.

Answer: C

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Analytic

15) Refer to Scenario 7.1. A yearly normal rate of return for your computer software firm would be

- A) \$20,000.
- B) \$40,000.
- C) \$60,000.
- D) \$100,000.

Answer: B

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Analytic

16) Refer to Scenario 7.1. Your accounting profit last year was

- A) \$10,000.
- B) \$30,000.
- C) \$40,000.
- D) \$60,000.

Answer: C

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Analytic

17) Refer to Scenario 7.1. Your economic profit last year was

- A) -\$40,000.
- B) -\$10,000.
- C) \$0.
- D) \$10,000.

Answer: C

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Analytic

*Refer to Scenario 7.2 below to answer the questions that follow.*

SCENARIO 7.2: You own and are the only employee of a company that sets odds for sporting events. Last year your total revenue was \$60,000. Your costs for rent and supplies were \$50,000. To start this business you invested an amount of your own capital that could pay you a \$20,000 a year return.

18) Refer to Scenario 7.2. During the year your economic costs were

- A) \$70,000.
- B) \$60,000.
- C) \$50,000.
- D) \$20,000.

Answer: A

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Analytic

19) Refer to Scenario 7.2. A yearly normal profit for your company is

- A) \$20,000.
- B) \$40,000.
- C) \$60,000.
- D) \$100,000.

Answer: A

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Analytic

20) Refer to Scenario 7.2. Your accounting profit last year was

- A) \$10,000.
- B) \$30,000.
- C) \$50,000.
- D) \$60,000.

Answer: A

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Analytic

21) Refer to Scenario 7.2. Your economic profit last year was

- A) -\$40,000.
- B) -\$10,000.
- C) \$10,000.
- D) \$30,000.

Answer: B

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Analytic

*Refer to Scenario 7.3 below to answer the questions that follow.*

SCENARIO 7.3: Upon graduating with an accounting degree, you open your own accounting firm of which you and your assistant are the only employees. To start the firm you passed on a job offer with a large accounting firm that offered you a salary of \$50,000 annually. Last year you earned a total revenue of \$120,000. Rent and supplies last year were \$50,000. Your assistant's salary is \$30,000 annually.

22) Refer to Scenario 7.3. Your annual economic costs are

- A) \$50,000.
- B) \$80,000.
- C) \$100,000.
- D) \$130,000.

Answer: D

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Analytic

23) Refer to Scenario 7.3. Your annual economic profit is

- A) -\$10,000.
- B) \$20,000.
- C) \$40,000.
- D) \$70,000.

Answer: A

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Analytic

24) Refer to Scenario 7.3. Your annual operating profit is

- A) -\$10,000.
- B) \$40,000.
- C) \$70,000.
- D) \$80,000.

Answer: B

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Analytic

25) An economist is studying the pricing behavior of Atlanta's 100 dog kennels. She says she will limit her analysis to a time period that allows for neither new kennels to enter the market nor existing ones to leave it. The economist is referring to the \_\_\_\_\_ time period.

- A) market
- B) industry
- C) long run
- D) short run

Answer: D

Diff: 3

Topic: Behavior of Profit-Maximizing Firms

Skill: Conceptual

26) In the long run, a firm

- A) can shut down, but it cannot exit the industry.
- B) has no fixed factors of production.
- C) can vary all inputs, but it cannot change the mix of inputs it uses.
- D) must make positive economic profits.

Answer: B

Diff: 3

Topic: Behavior of Profit-Maximizing Firms

Skill: Conceptual

27) In the short run, a firm

- A) has at least one fixed factor of production.
- B) cannot enter an industry where positive profits are being earned.
- C) can exit an industry and all of its factors of production are variable.
- D) both (A) and (B) are correct.

Answer: D

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Definition

## 2 True/False

1) If Harold runs a grocery store and earns a normal rate of return, we can infer that he also makes a positive economic profit.

Answer: FALSE

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Definition

2) If a firm makes a positive economic profit, it is making at least a normal rate of return.

Answer: TRUE

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Definition

3) In the short run, firms can enter an industry but not exit it.

Answer: FALSE

Diff: 1

Topic: Behavior of Profit-Maximizing Firms

Skill: Fact

4) Economists consider the short run as a period less than one year.

Answer: FALSE

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Definition



- 5) For economic analysis, the long run is any period in which all inputs are variable (regardless of the length of time involved).

Answer: TRUE

Diff: 2

Topic: Behavior of Profit-Maximizing Firms

Skill: Definition

- 6) Deciding to invest in capital is a short-run decision.

Answer: FALSE

Diff: 1

Topic: Behavior of Profit-Maximizing Firms

Skill: Fact

## 7.2 The Production Process

### 1 Multiple Choice

- 1) To determine the optimal method of production for a good or service, a firm needs to know
- A) the market price of output.
  - B) the technologies of production that are available to the firm.
  - C) the prices of inputs.
  - D) All of the above are correct.

Answer: D

Diff: 3

Topic: The Production Process

Skill: Conceptual

- 2) The optimal production method
- A) maximizes output regardless of cost.
  - B) maximizes inputs.
  - C) minimizes cost.
  - D) minimizes the normal rate of return.

Answer: C

Diff: 3

Topic: The Production Process

Skill: Conceptual

- 3) Which of the following demonstrates an act of production, as economists use the term?
- A) A worker places money in a pension fund.
  - B) A local nonprofessional theater company performs a play.
  - C) An individual buys municipal bonds to avoid taxes.
  - D) all of the above

Answer: B

Diff: 2

Topic: The Production Process

Skill: Analytic

Use the information provided in Table 7.1 below to answer the questions that follow.

**Table 7.1**  
**Inputs Required to Produce a Product Using Alternative Technologies**

Technology	Units of Capital	Number of Employees
A	4	18
B	6	12
C	8	8
D	12	6

4) Refer to Table 7.1 above. Which technology is the most labor intensive?

- A) A
- B) B
- C) C
- D) D

Answer: A

Diff: 2

Topic: The Production Process

Skill: Analytic

5) Refer to Table 7.1 above. Which technology is the most capital intensive?

- A) A
- B) B
- C) C
- D) D

Answer: D

Diff: 2

Topic: The Production Process

Skill: Analytic

6) Refer to Table 7.1. If the hourly price of capital is \$10 and the hourly wage rate is \$7, which production technology should be selected?

- A) A
- B) B
- C) C
- D) D

Answer: C

Diff: 2

Topic: The Production Process

Skill: Analytic

7) Refer to Table 7.1. If the hourly price of capital is \$20 and the hourly wage rate is \$5, which production technology should be selected?

- A) A
- B) B
- C) C
- D) D

Answer: A

Diff: 2

Topic: The Production Process

Skill: Analytic

*Use the information provided in Table 7.2 below to answer the questions that follow.*

**Table 7.2**  
**Inputs Required to Produce a Product Using Alternative Technologies**

Technology	Units of Capital	Number of Employees
A	16	8
B	12	12
C	8	20
D	6	24

8) Refer to Table 7.2. Which technology is the most capital intensive?

- A) A
- B) B
- C) C
- D) D

Answer: A

Diff: 2

Topic: The Production Process

Skill: Analytic

9) Refer to Table 7.2. If the hourly price of capital is \$50 and the hourly wage rate is \$10, which production technology should be selected?

- A) A
- B) B
- C) C
- D) D

Answer: D

Diff: 2

Topic: The Production Process

Skill: Analytic

10) Refer to Table 7.2. If the hourly price of capital is \$1 and the hourly price of labor is \$10, which production technology should be selected?

- A) A
- B) B
- C) C
- D) D

Answer: A

Diff: 2

Topic: The Production Process

Skill: Analytic

11) Refer to Table 7.2. Which technology is the most labor intensive?

- A) A
- B) B
- C) C
- D) D

Answer: D

Diff: 2

Topic: The Production Process

Skill: Analytic

*Use the information provided in Figure 7.2 below to answer the questions that follow.*

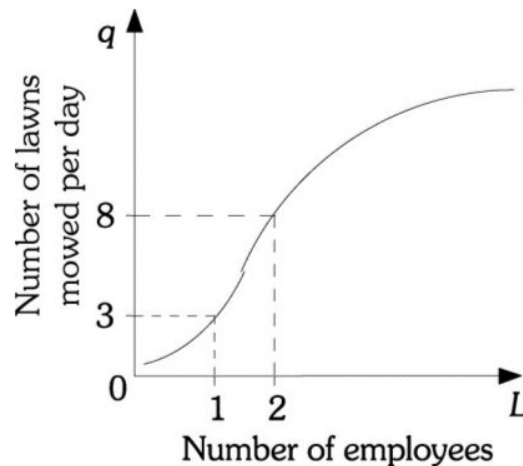


Figure 7.2

12) Refer to Figure 7.2. The marginal product of the second worker is \_\_\_\_\_ lawns moved.

- A) 4
- B) 5
- C) 5.5
- D) 11

Answer: B

Diff: 2

Topic: The Production Process

Skill: Analytic

13) Refer to Figure 7.2. The average product of the second worker is \_\_\_\_\_ lawns moved.

- A) 4
- B) 5
- C) 5.5
- D) 11

Answer: A

Diff: 2

Topic: The Production Process

Skill: Analytic

*Refer to Scenario 7.4 below to answer the questions that follow.*

SCENARIO 7.4: A lawn service company has the following production possibilities. With one, two, three, and four workers, the company can mow 4, 9, 12, and 14 lawns per day, respectively.

14) Refer to Scenario 7.4. The marginal product of the second worker is

- A) 3
- B) 4
- C) 5
- D) 9

Answer: C

Diff: 2

Topic: The Production Process

Skill: Analytic

15) Refer to Scenario 7.4. The marginal product of the third worker is

- A) 2
- B) 3
- C) 4
- D) 12

Answer: B

Diff: 2

Topic: The Production Process

Skill: Analytic

16) Refer to Scenario 7.4. The marginal product of the fourth worker is

- A) 2
- B) 3
- C) 12
- D) 14

Answer: A

Diff: 2

Topic: The Production Process

Skill: Analytic

17) Refer to Scenario 7.4. Diminishing returns to labor set in with the \_\_\_\_\_ worker.

- A) first
- B) second
- C) third
- D) fourth

Answer: C

Diff: 2

Topic: The Production Process

Skill: Analytic

18) Refer to Scenario 7.4. The average product of labor with three workers is

- A) 3
- B) 3.5
- C) 4
- D) 12

Answer: C

Diff: 2

Topic: The Production Process

Skill: Analytic

19) Refer to Scenario 7.4. The average product of labor with four workers is

- A) 3
- B) 3.5
- C) 4
- D) 14

Answer: B

Diff: 2

Topic: The Production Process

Skill: Analytic

Use the information provided in Figure 7.3 below to answer the questions that follow.

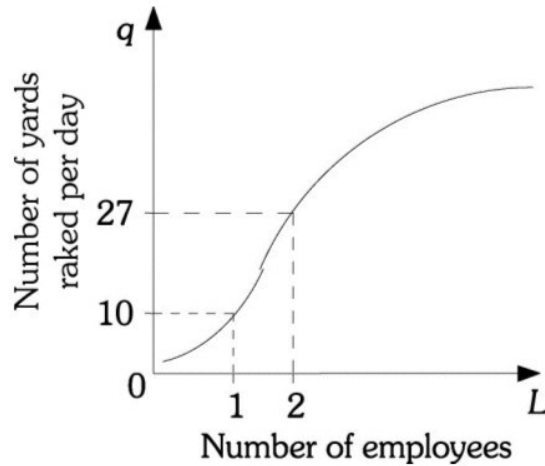


Figure 7.3

20) Refer to Figure 7.3. The marginal product of the second worker is \_\_\_\_\_ yards raked.

- A) 2
- B) 13.5
- C) 17
- D) 27

Answer: C

Diff: 2

Topic: The Production Process

Skill: Analytic

21) Refer to Figure 7.3. The average product of the second worker is \_\_\_\_\_ yards raked.

- A) 4
- B) 13.5
- C) 14
- D) 27

Answer: B

Diff: 2

Topic: The Production Process

Skill: Analytic

22) When Burger Barn hires one worker, 10 customers can be served in an hour. When Burger Barn hires two workers, 25 customers can be served in an hour. The marginal product of the second worker is \_\_\_\_\_ customers served per hour.

- A) 15
- B) 30
- C) 40
- D) 67.5

Answer: A

Diff: 2

Topic: The Production Process

Skill: Analytic

- 23) The marginal products of the first, second, and third workers are 50, 34, and 22, respectively. If four workers can produce 116 units of output, then the marginal product of the fourth worker is \_\_\_\_\_ .

A) 10  
B) 12  
C) 22  
D) 116

Answer: A

Diff: 2

Topic: The Production Process

Skill: Analytic

- 24) At the Pampered Pet Salon the marginal products of the first, second, and third workers are 50, 36, and 25 dogs washed, respectively. The total product (number of dogs washed) of the two worker is

A) 11.  
B) 50.  
C) 86.  
D) 111.

Answer: C

Diff: 2

Topic: The Production Process

Skill: Analytic

- 25) At the Pampered Pet Salon the marginal products of the first, second, and third workers are 50, 36, and 25 dogs washed, respectively. The total product (number of dogs washed) of the three workers is

A) 50.  
B) 86.  
C) 107.  
D) 111.

Answer: D

Diff: 2

Topic: The Production Process

Skill: Analytic

- 26) At the Larson Bakery the marginal products of the first, second, and third salesclerks are 30, 27, and 21 customers served, respectively. The total product (number of customers served) of the two salesclerks is

A) 6.  
B) 17.  
C) 57.  
D) 78.

Answer: C

Diff: 2

Topic: The Production Process

Skill: Analytic



- 27) At the Larson Bakery the marginal products of the first, second, and third salesclerks are 30, 27, and 21 customers served, respectively. The total product (number of customers served) of the three salesclerks is

A) 30.  
B) 57.  
C) 78.  
D) 109.

Answer: C

Diff: 2

Topic: The Production Process

Skill: Analytic

*Use the information provided in Figure 7.4 below to answer the questions that follow.*

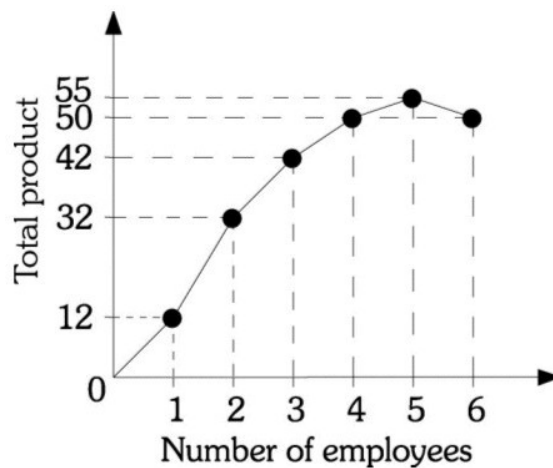


Figure 7.4

- 28) Refer to Figure 7.4. The marginal product of the second worker is

A) 10.  
B) 16.  
C) 20.  
D) 32.

Answer: C

Diff: 2

Topic: The Production Process

Skill: Analytic

- 29) Refer to Figure 7.4. The marginal product of the fourth worker is

A) 5.  
B) 8.  
C) 50.  
D) 55.

Answer: B

Diff: 2

Topic: The Production Process

Skill: Analytic

30) Refer to Figure 7.4. The marginal product of the sixth worker is

- A) -50.
- B) -5.
- C) 5.
- D) 8.33.

Answer: B

Diff: 2

Topic: The Production Process

Skill: Analytic

31) Refer to Figure 7.4. The average product of the third worker is

- A) 10.
- B) 14.
- C) 21.
- D) 25.

Answer: B

Diff: 2

Topic: The Production Process

Skill: Analytic

32) Refer to Figure 7.4. The average product of the fifth worker is

- A) 1.
- B) 2.5.
- C) 5.
- D) 11.

Answer: D

Diff: 2

Topic: The Production Process

Skill: Analytic

33) Refer to Figure 7.4. The average product of the sixth worker is

- A) -8.33.
- B) -5.
- C) 5.
- D) 8.33.

Answer: D

Diff: 2

Topic: The Production Process

Skill: Analytic

34) Refer to Figure 7.4. Diminishing marginal returns begin when the \_\_\_\_\_ worker is hired.

- A) first
- B) second
- C) third
- D) fifth

Answer: C

Diff: 3

Topic: The Production Process

Skill: Analytic

- 35) If diminishing marginal returns have already set in for The Picture Perfect Framing Store and the marginal product of the fifth picture framer is 25, then the marginal product of the sixth picture framer must be

- A) negative.
- B) zero.
- C) less than 25.
- D) greater than 25.

Answer: C

Diff: 2

Topic: The Production Process

Skill: Definition

- 36) If labor is a variable input in production, the law of diminishing marginal returns implies that in the short run

- A) labor's marginal product is constant.
- B) labor's marginal product decreases after a certain point.
- C) total product is negative.
- D) total product is negative after a certain point has been reached.

Answer: B

Diff: 2

Topic: The Production Process

Skill: Analytic

Use the information provided in Figure 7.5 below to answer the question that follows.

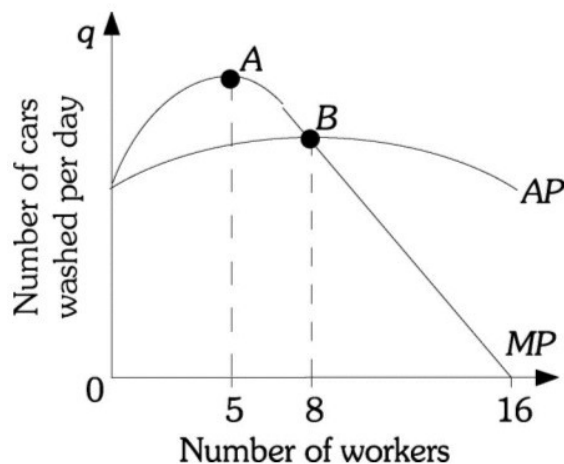


Figure 7.5

37) Refer to Figure 7.5. Diminishing marginal returns set in after the \_\_\_\_\_ worker is hired.

- A) first
- B) fifth
- C) eighth
- D) sixteenth

Answer: B

Diff: 2

Topic: The Production Process

Skill: Definition

38) If the marginal product of labor is less than the average product of labor, then the

- A) marginal product must be increasing.
- B) average product must be decreasing.
- C) marginal product must be decreasing.
- D) both B and C

Answer: D

Diff: 2

Topic: The Production Process

Skill: Definition

39) The version of the law of diminishing returns that applies to production

- A) implies that as we add more workers our production decreases.
- B) applies only in the short run.
- C) is true only when all inputs are variable.
- D) applies in the short and long run.

Answer: B

Diff: 2

Topic: The Production Process

Skill: Analytic

Refer to the information provided in Table 7.3 below to answer the question that follows.

Table 7.3

L	0	1	2	3	4	5
Q	0	10	20	30	40	50

- 40) Suppose output varies, *ceteris paribus*, with labor input in the manner displayed in the table above. After how many units of labor do diminishing returns set in?

A) 3  
B) 4  
C) 5  
D) They do not set in.

Answer: D

Diff: 1

Topic: The Production Process

Skill: Fact

- 41) When a firm maximizes total product in the short run, marginal product

A) and average product are zero.  
B) is positive but average product is zero.  
C) is zero but average product is positive.  
D) and average product are positive.

Answer: C

Diff: 1

Topic: The Production Process

Skill: Fact

- 42) At the point where total product is maximized, marginal product

A) is zero, but average product is still positive.  
B) and average product are negative.  
C) is positive, but average product is negative.  
D) and average product are positive.

Answer: A

Diff: 1

Topic: The Production Process

Skill: Fact

- 43) If marginal product is greater than average product, then

A) average product must be decreasing.  
B) marginal product must be decreasing.  
C) marginal product must be increasing.  
D) marginal product could either be increasing or decreasing.

Answer: D

Diff: 1

Topic: The Production Process

Skill: Fact

- 44) If we assume that labor is the only variable input, the slope of the short run total product curve
- A) has no economic significance.
  - B) measures the average product of labor.
  - C) measures the marginal product of labor.
  - D) measures the marginal and average product of labor depending on where on the total product curve we are.

Answer: C

Diff: 2

Topic: The Production Process

Skill: Fact

- 45) You own a business that answers telephone calls for physicians after their offices close. You have an incentive to substitute capital for labor if the
- A) price of capital increases.
  - B) price of labor decreases.
  - C) price of labor increases.
  - D) marginal product of labor increases.

Answer: C

Diff: 2

Topic: The Production Process

Skill: Definition

- 46) Firms have an incentive to substitute labor for capital as the
- A) price of labor decreases.
  - B) price of capital decreases.
  - C) price of labor increases.
  - D) marginal product of labor decreases.

Answer: A

Diff: 1

Topic: The Production Process

Skill: Fact

- 47) The specific technology chosen by a profit-maximizing clothing manufacturer depends on
- A) input prices.
  - B) output prices.
  - C) demand for the output.
  - D) supply of the output.

Answer: A

Diff: 2

Topic: The Production Process

Skill: Analytic

Refer to the information provided in Figure 7.6 below to answer the questions that follow.

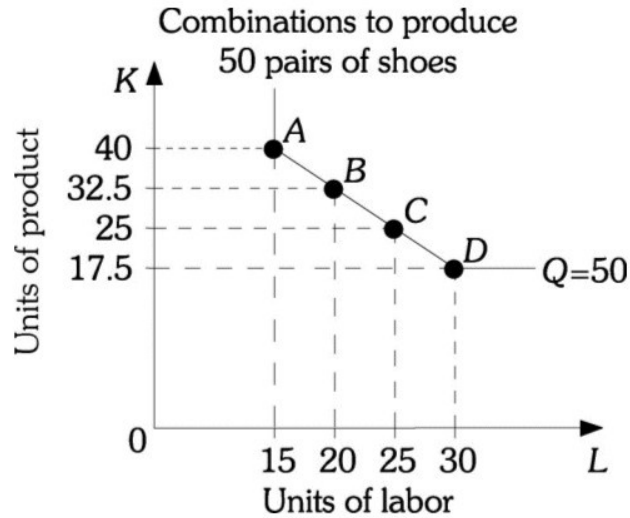


Figure 7.6

- 48) Refer to Figure 7.6. If this shoe manufacturer increases labor from 15 to 20 (moving along the given isoquant with  $Q=50$ ), the marginal product of the 20th worker
- A) is zero, as the total number of shoes produced remains at 50.
  - B) is 8.5, as capital can be reduced by 8.5 units when the 20th worker is hired.
  - C) cannot be determined because output remains constant.
  - D) cannot be determined because both capital and labor have been increased.

Answer: C

Diff: 2

Topic: The Production Process

Skill: Analytic

- 49) Refer to Figure 7.6. If the price of capital is \$20 and the price of labor is \$10, the optimal product technique is
- A) A.
  - B) B.
  - C) C.
  - D) D.

Answer: D

Diff: 3

Topic: The Production Process

Skill: Conceptual

- 50) Assume the prices of labor and capital remain the same, but the average educational level of workers increases and therefore labor productivity increases. This would lead a firm to
- A) use a more capital-intensive production technology.
  - B) use a more labor-intensive technology.
  - C) not change its production technology, but produce fewer units of output.
  - D) use only labor to produce the product.

Answer: B

Diff: 1

Topic: The Production Process

Skill: Fact

- 51) Assume that capital and labor are complementary inputs. If the firm increases the amount of capital it employs, this would
- A) cause the firm to move down along the  $MP$  schedule for labor.
  - B) cause the firm to move up along its  $MP$  schedule for labor.
  - C) shift the firm's  $MP$  schedule for labor to the left.
  - D) shift the firm's  $MP$  schedule for labor to the right.

Answer: D

Diff: 2

Topic: The Production Process

Skill: Definition

- 52) We can write the cost minimizing equilibrium condition as
- A)  $MPL = MPK$ .
  - B)  $PL = PK$ .
  - C)  $(MPL)(PL) = (MPK)(PK)$ .
  - D)  $MPL/PL = MPK/PK$ .

Answer: D

Diff: 3

Topic: The Production Process

Skill: Conceptual

- 53) A firm is operating such that the marginal product of labor is 10 and the marginal product of capital is 40. The firm is minimizing its costs only if
- A) the wage is one fourth the rental rate.
  - B) the rental rate is one fourth the wage.
  - C) since capital is more productive than labor, the firm must be minimizing cost.
  - D) Given this information the firm can't be minimizing cost under any circumstances.

Answer: A

Diff: 3

Topic: The Production Process

Skill: Conceptual



- 54) A firm produces 15 units of output from the last dollar it spends on labor and 10 units from the last dollar spent on capital. The firm should
- A) employ more labor and less capital.
  - B) employ more capital and less labor.
  - C) employ more capital and labor.
  - D) employ less capital and labor.

Answer: A

Diff: 2

Topic: The Production Process

Skill: Conceptual

- 55) If the product derived from the last dollar spent on labor is greater than the product derived from the last dollar spent on capital, then the firm should
- A) make no changes since it is minimizing costs.
  - B) use more labor and less capital to minimize costs.
  - C) use less labor and more capital to minimize costs.
  - D) increase the price paid to labor and decrease the price paid to capital to minimize costs.

Answer: B

Diff: 3

Topic: The Production Process

Skill: Conceptual

- 56) If the product derived from the last dollar spent on labor is less than the product derived from the last dollar spent on capital, then the firm should \_\_\_\_\_ costs.
- A) make no changes since it is minimizing
  - B) use more labor and less capital to minimize
  - C) use less labor and more capital to minimize
  - D) increase the price paid to labor and decrease the price paid to capital to minimize

Answer: C

Diff: 3

Topic: The Production Process

Skill: Conceptual

- 57) If Microsoft is earning a rate of return greater than the return necessary for the business to continue operations in the long run, then
- A) total costs exceed total revenue.
  - B) total costs exceed a normal rate of return.
  - C) the firm's normal rate of return is zero.
  - D) the firm is earning an economic profit.

Answer: D

Diff: 3

Topic: The Production Process

Skill: Conceptual

58) If Pets.com earns a rate of return less than necessary for it to continue operations, then its

- A) total revenue exceeds its economic costs.
- B) economic costs exceed its total revenue.
- C) normal profit is zero.
- D) economic profit is zero.

Answer: B

Diff: 1

Topic: The Production Process

Skill: Fact

59) You are certain that the computer industry's normal rate of return is 18%. You would expect a(n) \_\_\_\_\_ normal rate of return for a computer software industry that people consider much riskier than the computer industry.

- A) 18%
- B) less than 18%
- C) above 18%
- D) riskfree (the rate on government bonds)

Answer: C

Diff: 1

Topic: The Production Process

Skill: Fact

60) The formula for the marginal product of labor is

- A)  $L/q$ .
- B)  $(\Delta L)(\Delta q)$ .
- C)  $q/L$ .
- D)  $\Delta q/\Delta L$ .

Answer: D

Diff: 2

Topic: The Production Process

Skill: Analytic

61) Assume the total product of two workers is 100 and the total product of three workers is 150. The third worker's average product is \_\_\_\_\_ while her marginal product is \_\_\_\_\_.

- A) 40; 20
- B) 20; 40
- C) 50; 50
- D) 150; 100

Answer: C

Diff: 2

Topic: The Production Process

Skill: Analytic

62) Assume the total product of two workers is 110 and the total product of three workers is 120. The third worker's average product is \_\_\_\_\_ while her marginal product is \_\_\_\_\_.

- A) 40; 10
- B) 40; 20
- C) 50; 10
- D) 120; 110

Answer: A

Diff: 2

Topic: The Production Process

Skill: Analytic

63) Assume the total product of two workers is 80 and the total product of three workers is 90. The third worker's average product is \_\_\_\_\_ while her marginal product is \_\_\_\_\_.

- A) 10; 30
- B) 30; 10
- C) 10; 13.33
- D) 160; 270

Answer: B

Diff: 2

Topic: The Production Process

Skill: Analytic

64) Assume the total product of three workers is 120 and the total product of four workers is 160. The fourth worker's average product is \_\_\_\_\_ while her marginal product is \_\_\_\_\_.

- A) 10; 30
- B) 30; 10
- C) 40; 40
- D) 160; 40

Answer: C

Diff: 2

Topic: The Production Process

Skill: Analytic

65) Burning Bob's Salsa House serves 30 customers in an hour when it hires one worker. It serves 60 customers in an hour when it hires two workers. The marginal product of the second worker is \_\_\_\_\_ customers served per hour.

- A) 20
- B) 30
- C) 50
- D) 67.5

Answer: B

Diff: 1

Topic: The Production Process

Skill: Fact

66) The formula for the average product of labor is

- A)  $\Delta q / \Delta L$ .
- B)  $\Delta L / \Delta q$ .
- C)  $q / L$ .
- D)  $L / q$ .

Answer: C

Diff: 2

Topic: The Production Process

Skill: Definition

67) When the marginal product of labor equals the average product of labor, then

- A) the average product is maximized.
- B) the marginal product is maximized.
- C) the marginal product is still increasing.
- D) the average product is still increasing.

Answer: A

Diff: 3

Topic: The Production Process

Skill: Conceptual

68) As a firm's total cost for capital and labor increases, its isocost line

- A) shifts parallel outward from the original isocost line.
- B) shifts parallel inward from the original isocost line.
- C) rotates outward on the Y-intercept.
- D) rotates outward on the X-intercept.

Answer: A

Diff: 2

Topic: The Production Process

Skill: Analytic

69) As a firm's total cost for capital and labor decreases, its isocost line

- A) shifts parallel outward from the original isocost line.
- B) shifts parallel inward from the original isocost line.
- C) rotates outward on the Y-intercept.
- D) rotates outward on the X-intercept.

Answer: B

Diff: 2

Topic: The Production Process

Skill: Analytic

- 70) Related to the *Economics in Practice* on page 144: UPS is adjusting its production process by
- A) increasing the labor intensity of its production.
  - B) increasing the capital intensity of its production.
  - C) decreasing the capital intensity of its production.
  - D) UPS is already using the optimal capital to labor ratio in its production and no modifications are currently planned.

Answer: B

Diff: 2

Topic: The Production Process: Economics in Practice

Skill: Fact

## 2 True/False

- 1) If the first worker produces five custom picture frames a day, and the second worker produces five additional custom picture frames a day, then diminishing marginal returns have not yet set in.

Answer: TRUE

Diff: 1

Topic: The Production Process

Skill: Fact

- 2) One worker produces 5 rocking chairs. If diminishing returns have already set in, a firm will need to hire more than two workers to produce 10 rocking chairs.

Answer: TRUE

Diff: 1

Topic: The Production Process

Skill: Fact

- 3) A production function shows the least amount that a firm will produce given the amount of labor input.

Answer: FALSE

Diff: 1

Topic: The Production Process

Skill: Fact

- 4) If the marginal product of labor is less than the average product of labor, then the average product of labor is increasing.

Answer: FALSE

Diff: 2

Topic: The Production Process

Skill: Conceptual

## 7.3 Choice of Technology

### 1 Multiple Choice

- 1) Costs of production are determined
- A) only by the technologies that are available.
  - B) only by the input prices that are available.
  - C) by the technologies that are available and by input prices.
  - D) by the technologies that are available and by the demand for the output.

Answer: C

Diff: 1

Topic: Choice of Technology

Skill: Fact

- 2) Related to the *Economics in Practice* on page 146: If you own a truck and use it to deliver merchandise to retailers and hire a driver to such deliveries. The speed at which you instruct the driver to drive depends on
- A) the driver's wage only.
  - B) the price of gasoline only.
  - C) the driver's wage and the price of gasoline.
  - D) neither the driver's wage nor the price of gasoline.

Answer: C

Diff: 1

Topic: Choice of Technology: Economics in Practice

Skill: Fact

- 3) Related to the *Economics in Practice* on page 146: Suppose you own a truck and use it to deliver merchandise to retailers and hire a driver to such deliveries. At higher rates of speed the truck gets fewer miles per gallon of gas. Holding all else constant, as the price of gasoline continues to rise
- A) you will instruct your driver to drive faster.
  - B) you will instruct your driver to drive slower.
  - C) you will ask your driver to change their driving in any way.
  - D) you will make more deliveries to cover the increasing cost of fuel.

Answer: B

Diff: 1

Topic: Choice of Technology: Economics in Practice

Skill: Conceptual

## 7.4 Appendix

### 1 Multiple Choice

- 1) A graph showing all combinations of capital and labor that a firm can use to produce a given amount of output is a(n)
- A) indifference curve.
  - B) isoquant.
  - C) isocost line.
  - D) production function.

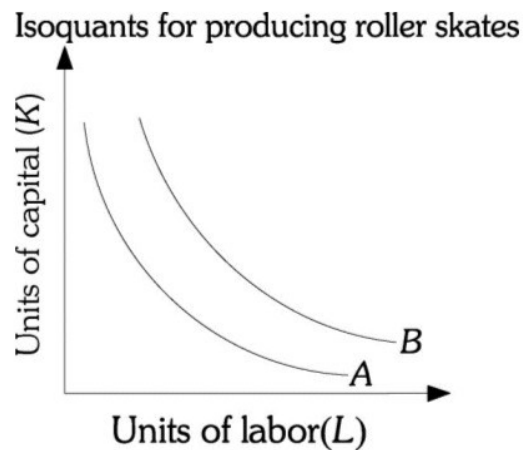
Answer: B

Diff: 1

Topic: Appendix: Isoquants and Isocosts

Skill: Fact

*Use the information provided in the Figure 7.7 below to answer the question that follows.*



**Figure 7.7**

- 2) Refer to Figure 7.7 above. If Roller Skates Unlimited moves from isoquant B to isoquant A, the number of roller skates produced
- A) decreases.
  - B) increases.
  - C) remains constant, but Roller Skates Unlimited uses more capital and more labor.
  - D) remains constant, but input prices have risen.

Answer: A

Diff: 1

Topic: Appendix: Isoquants and Isocosts

Skill: Fact

Use the information provided in the Figure 7.8 below to answer the question that follows.

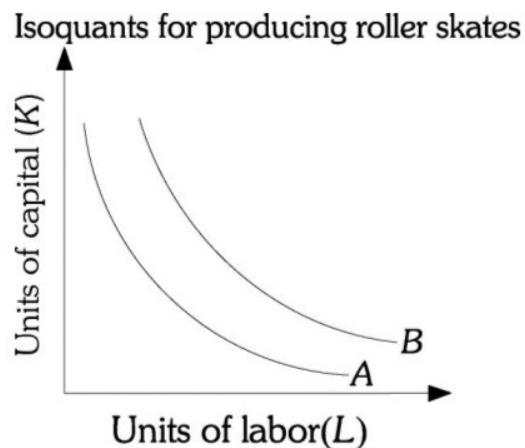


Figure 7.8

- 3) Refer to Figure 7.8 above. If Roller Skates Unlimited moves from isoquant *B* to isoquant *A*, the number of roller skates produced
- A) decreases.
  - B) increases.
  - C) remains constant, but Roller Skates Unlimited uses more capital and more labor.
  - D) remains constant, but input prices have risen.

Answer: A

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Definition

- 4) Isoquants slope downward because as a firm uses more
- A) units of an input to produce a product, total cost increases.
  - B) units of an input to produce a product, the input's marginal productivity increases.
  - C) of one input, then to keep output constant it needs less of the other input.
  - D) both B and C

Answer: C

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Analytic

- 5) A(n) \_\_\_\_\_ shows all combinations of capital and labor that yield a given total cost.
- A) isocost line
  - B) isoquant
  - C) budget constraint
  - D) expenditure set

Answer: A

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Analytic

Refer to the information provided in Figure 7.9 below to answer the questions that follow.



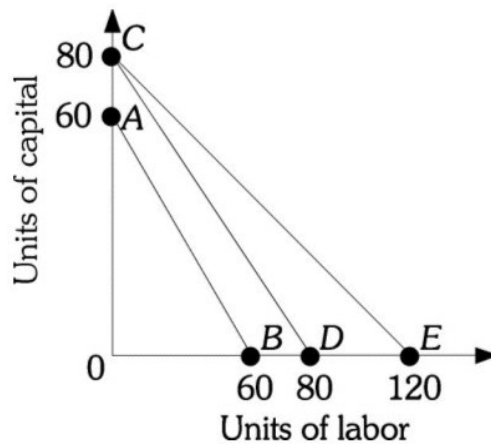


Figure 7.9

- 6) Refer to Figure 7.9. If the price of capital is \$25, then along isocost line *AB* total cost is
- A) \$1200.
  - B) \$1500.
  - C) \$2000.
  - D) indeterminate from this information since the price of labor is not given.

Answer: B

Diff: 3

Topic: Appendix: Isoquants and Isocosts

Skill: Conceptual

- 7) Refer to Figure 7.9. The firm is currently along isocost *CD*. If the price of capital is \$25, then the price of labor is
- A) \$1.
  - B) \$25.
  - C) \$80.
  - D) indeterminate from the information given.

Answer: B

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Analytic

- 8) Refer to Figure 7.9. The firm is currently along isocost *CE*. If the price of capital is \$24, then the price of labor is
- A) \$16.
  - B) \$24.
  - C) \$80.
  - D) \$120.

Answer: A

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Analytic

- 9) Refer to Figure 7.9. The firm's isocost line would shift from *CD* to *CE* if

- A) the price of capital fell.
- B) the price of labor fell.
- C) the firm's total expenditure on inputs increased.
- D) either the price of labor fell or the firm's total expenditure on inputs increased.

Answer: B

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Analytic

10) Refer to Figure 7.9. The slope of isocost  $AB$  is

- A) -1.
- B) 0.
- C) 1.
- D) indeterminate from this information, as the prices of capital and labor are not given.

Answer: A

Diff: 1

Topic: Appendix: Isoquants and Isocosts

Skill: Fact

11) Refer to Figure 7.9. The slope of isocost  $CD$  is

- A) -1.
- B)  $-2/3$ .
- C) 0.
- D) indeterminate from this information, as the prices of capital and labor are not given.

Answer: A

Diff: 1

Topic: Appendix: Isoquants and Isocosts

Skill: Fact

12) Refer to Figure 7.9. The slope of isocost  $CE$  is

- A) -1.
- B)  $-2/3$ .
- C) 0.
- D) indeterminate from this information, as the prices of capital and labor are not given.

Answer: B

Diff: 1

Topic: Appendix: Isoquants and Isocosts

Skill: Fact

- 13) Refer to Figure 7.9. The firm's isocost line could shift from  $CD$  to  $AB$  if the
- A) price of capital increased.
  - B) firm's total expenditures increased by 25%.
  - C) price of capital and labor each increased by 25%.
  - D) firm's total expenditures decreased by 25% or the price of capital and labor each increased by 33%.

Answer: D

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Fact

- 14) Refer to Figure 7.9 The firm's isocost line could shift from  $AB$  to  $CD$  if
- A) the price of capital decreased.
  - B) the firm's total expenditures decreased by 33%.
  - C) the price of capital and labor each decreased by 25%.
  - D) the firm's total expenditures increased by 33% or the price of capital and labor each decreased by 33%.

Answer: D

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Fact

- 15) Refer to Figure 7.9. The general formula for the slope of any of the isocost lines is
- A)  $-PK/PL$ .
  - B)  $-PL/PK$ .
  - C)  $TC/PL$ .
  - D)  $TC/PK$ .

Answer: B

Diff: 1

Topic: Appendix: Isoquants and Isocosts

Skill: Fact

- 16) Refer to Figure 7.9. If the price of capital is \$30, then along isocost line  $AB$  total cost is
- A) \$1,200.
  - B) \$1,800.
  - C) \$2,400.
  - D) indeterminate from this information, as the price of labor is not given.

Answer: B

Diff: 1

Topic: Appendix: Isoquants and Isocosts

Skill: Fact

Refer to the information provided in Figure 7.10 below to answer the questions that follow.

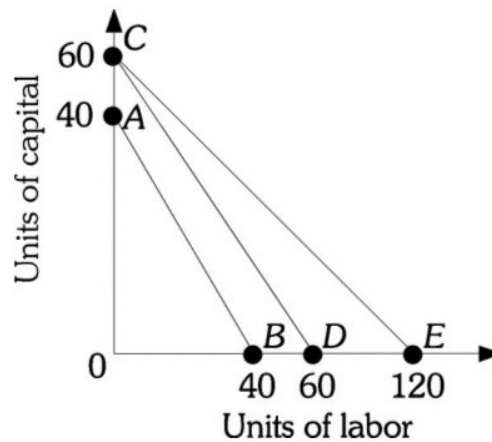


Figure 7.10

- 17) Refer to Figure 7.10. The firm is currently along isocost  $CD$ . If the price of capital is \$30, then the price of labor is

A) \$4.  
 B) \$30.  
 C) \$180.  
 D) indeterminate from this information.

Answer: B

Diff: 1

Topic: Appendix: Isoquants and Isocosts

Skill: Fact

- 18) Refer to Figure 7.10. The firm's isocost line would shift from  $CE$  to  $CD$  if

A) the price of capital rises.  
 B) the price of labor rises.  
 C) the firm's total expenditure on inputs decreases.  
 D) either the price of labor falls or the firm's total expenditure on inputs decreases.

Answer: B

Diff: 1

Topic: Appendix: Isoquants and Isocosts

Skill: Fact

- 19) Refer to Figure 7.10. The slope of isocost  $AB$  is

A) -1.  
 B) 0.  
 C) 1.  
 D) indeterminate from this information, as the prices of capital and labor are not given.

Answer: A

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Analytic

20) Refer to Figure 7.10. The slope of isocost  $CD$  is

- A) -1.
- B) 0.
- C) 1.
- D) indeterminate from this information, as the prices of capital and labor are not given.

Answer: A

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Analytic

21) Refer to Figure 7.10. The slope of isocost  $CE$  is

- A)  $-1/2$ .
- B) -1.
- C) -2.
- D) indeterminate from this information, as the prices of capital and labor are not given.

Answer: A

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Analytic

22) Refer to Figure 7.11. The firm's isocost line could shift from  $AB$  to  $CD$  if

- A) the price of capital decreased.
- B) the firm's total expenditures increased by 50%.
- C) the price of capital and labor each decreased by 50%.
- D) either B or C

Answer: B

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Analytic

Refer to the information provided in Figure 7.11 below to answer the questions that follow.

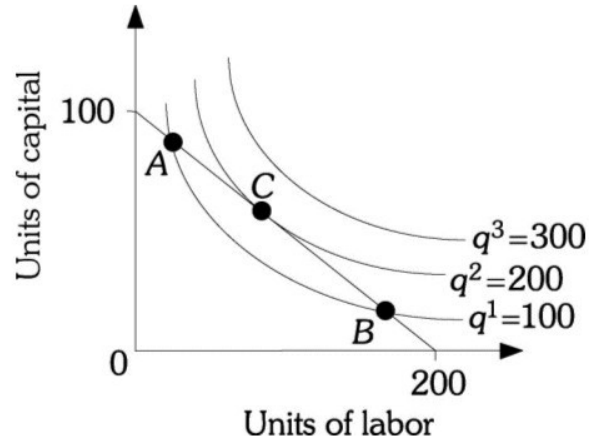


Figure 7.11

- 23) Refer to Figure 7.11. If this firm's cost of capital is \$10 per unit and its cost of labor is \$5 per unit, the isocost line represents a total cost of

A) \$1,000.  
 B) \$2,000.  
 C) \$3,000.  
 D) \$4,000.

Answer: A

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Analytic

- 24) Refer to Figure 7.11. The slope of the isocost line is

A) -2.  
 B) -1/2.  
 C) 1/2.  
 D) 2.

Answer: B

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Analytic

- 25) Refer to Figure 7.11. At Point C the slope of the  $q_2 = 200$  isoquant is

A) -2.  
 B) -1/2.  
 C) -1.  
 D) indeterminate from this information.

Answer: B

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Analytic

- 26) Refer to Figure 7.11. At Point A the absolute value of the slope of the  $q_1 = 100$  isoquant is
- A) less than 2.
  - B) exactly equal to 2.
  - C) greater than 2.
  - D) indeterminate from this information.

Answer: C

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Analytic

- 27) Refer to Figure 7.11. If the given isocost line represents the firm's level of total cost, the \_\_\_\_\_ point represents the firm's optimal combination of capital and labor.
- A) A
  - B) B
  - C) C
  - D) 50 units of capital and 50 of labor

Answer: C

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Analytic

- 28) Refer to Figure 7.11. The given isocost line represents the firm's level of total cost. At the firm's optimal combination of capital and labor, the firm produces \_\_\_\_\_ units of output.
- A) 100
  - B) 200
  - C) 300
  - D) indeterminate from this information.

Answer: B

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Analytic

Refer to the information provided in Figure 7.12 below to answer the questions that follow.

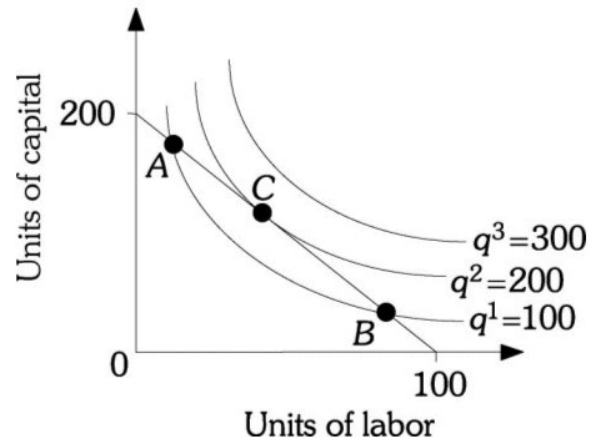


Figure 7.12

- 29) Refer to Figure 7.12. If the firm's cost of capital is \$15 per unit and its cost of labor is \$30 per unit, the isocost line represents a total cost of

A) \$2,000.  
 B) \$3,000.  
 C) \$6,000.  
 D) \$8,000.

Answer: B

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Analytic

- 30) Refer to Figure 7.12. The slope of the isocost line is

A) -2.  
 B) -1/2.  
 C) 1/2.  
 D) 2.

Answer: A

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Analytic

- 31) Refer to Figure 7.13. At point C the slope of the  $q^2 = 200$  isoquant is

A) -2.  
 B) -1/2.  
 C) -1.  
 D) indeterminate from this information.

Answer: A

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Fact



32) Refer to Figure 7.13. If the isocost line given represents the firm's level of total cost, the \_\_\_\_\_ point represents the firm's optimal combination of capital and labor.

- A) A
- B) B
- C) C
- D) 50 units of capital and 50 of labor

Answer: C

Diff: 3

Topic: Appendix: Isoquants and Isocosts

Skill: Conceptual

33) The least costly way to produce any given level of output is indicated by the

- A) point of intersection between the isoquant corresponding to that level of output and the Y-axis.
- B) point of intersection between the isoquant corresponding to that level of output and the X-axis.
- C) point of tangency between an isocost line and the isoquant corresponding to that level of output.
- D) isocost line corresponding to that level of output.

Answer: C

Diff: 1

Topic: Appendix: Isoquants and Isocosts

Skill: Fact

34) The point of tangency between an isocost line and an isoquant is necessarily

- A) the profit-maximizing combination of inputs a firm can hire to produce that output level.
- B) the least costly combination of inputs the firm can hire to produce that output level.
- C) both the profit-maximizing and least costly combination of inputs a firm can use to produce that output level.
- D) the minimum amount of output a firm can attain for that level of expenditure.

Answer: B

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Fact

35) We can derive a firm's total cost curve from its isoquant and isocost curves by varying

- A) the prices of capital and labor and keeping total expenditure constant.
- B) the production technologies, but keeping input prices and total expenditures constant.
- C) total expenditures while keeping input prices and the production technology constant.
- D) the price of either capital or labor while keeping total expenditures and the production technology constant.

Answer: C

Diff: 3

Topic: Appendix: Isoquants and Isocosts

Skill: Conceptual

36) The slope of the isoquant is

- A)  $-MP_L/MP_K$ .
- B) the marginal rate of technical substitution.
- C) negative.
- D) All of the above are correct.

Answer: D

Diff: 2

Topic: Appendix: Isoquants and Isocosts

Skill: Definition

*Principles of Microeconomics, 9e - Test Item File 2 (Case/Fair/Oster)*  
**Chapter 8 Short-Run Costs and Output Decisions**

**8.1 Costs in the Short Run**

**1 Multiple Choice**

1) In the short run

- A) a fixed factor of production does NOT impose limits on existing firms.
- B) all firms must bear some costs regardless of their output.
- C) new firms can enter an industry.
- D) existing firms can exit an industry.

Answer: B

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

2) Fixed costs

- A) do NOT exist in the long run.
- B) depend on a firm's level of output.
- C) are zero if a firm produces no output.
- D) are total costs minus average variable costs.

Answer: A

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

3) Which statement is NOT true? Variable costs are

- A) equal to total costs in the long run.
- B) zero if output is zero.
- C) equal to the product of average variable cost and the output level.
- D) constant as output increases.

Answer: D

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

4) Economists usually assume that \_\_\_\_\_ is a fixed input in the \_\_\_\_\_ run.

- A) labor; short
- B) capital; short
- C) labor; long
- D) capital; long

Answer: B

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

- 5) Economists usually assume that labor is \_\_\_\_\_ input in the \_\_\_\_\_ run.
- A) a fixed; short
  - B) a fixed; long
  - C) a variable; short
  - D) part fixed and part variable; long

Answer: C

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

- 6) The formula for total fixed cost is
- A)  $TFC = TC + TVC$ .
  - B)  $TFC = TVC - TC$ .
  - C)  $TFC = TC/TVC$ .
  - D)  $TFC = TC - TVC$ .

Answer: D

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

- 7) Total cost is calculated as
- A)  $TFC + TVC$ .
  - B)  $ATC \times P$ .
  - C) the sum of all the firm's implicit costs.
  - D)  $AFC + AVC$ .

Answer: A

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

- 8) The Lawn Ranger, a landscaping company, has total costs of \$5,000 and total variable costs of \$1,000. The Lawn Ranger's total fixed costs are
- A) \$0.
  - B) \$4,000.
  - C) \$6,000.
  - D) indeterminate because the firm's output level is unknown.

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

- 9) The Lawn Ranger, a landscaping company, has total costs of \$7,000 and total fixed costs of \$5,000. The Lawn Ranger's total variable costs are
- A) \$2,000.
  - B) \$3,000.
  - C) \$5,000.
  - D) indeterminate because the firm's output level is unknown.

Answer: A

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

- 10) A dairy company, Farley Farm, has total costs of \$10,000 and total variable costs of \$3,000. Farley Farm's total fixed costs are
- A) \$0.
  - B) \$7,000.
  - C) \$13,000.
  - D) indeterminate because the firm's output level is not known.

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

- 11) Wilbur's Widgets, a widget company, produces 100 widgets. Its average fixed cost is \$6 and its total variable cost is \$400. The total cost of producing 100 widgets is \_\_\_\_\_.
- A) \$306.
  - B) \$400.
  - C) \$600.
  - D) \$1,000.

Answer: D

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

- 12) Amy spends \$6,000 on remodeling a storefront that she then opens as a take-out deli. After opening her deli her business is terrible and she needs an additional \$2,000 to keep the deli open. Which of the following is TRUE?
- A) The \$6,000 Amy spent on remodeling represents a part of the total variable cost of her business.
  - B) The \$6,000 Amy spent on remodeling represents a sunk cost of her business.
  - C) The \$2,000 Amy needs to keep the deli open represents her marginal costs of production.
  - D) The \$2,000 Amy needs to keep the deli open represents her total fixed costs.

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

- 13) Dana spends \$10,000 on remodeling a storefront that she then opens as a shoe store. Her business has not been very successful, and she needs an additional \$3,000 to keep the shoe store open. Which of the following is TRUE?
- A) The \$10,000 Dana spent on remodeling represents a part of the total variable cost of her business.
  - B) The \$3,000 represents her marginal costs of production.
  - C) The \$10,000 Dana spent on remodeling is a fixed cost of her business.
  - D) The \$3,000 Dana needs to keep the deli open represents her total fixed costs.

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

- 14) Firms can \_\_\_\_\_ their \_\_\_\_\_ costs in the short run.
- A) change; fixed
  - B) not change; fixed
  - C) change; overhead
  - D) not change; variable

Answer: B

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

- 15) The formula for average fixed costs is
- A)  $TFC - q$ .
  - B)  $TFC/q$ .
  - C)  $q/TFC$ .
  - D)  $\Delta q/\Delta TFC$ .

Answer: B

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

- 16) Average fixed costs
- A) are the costs associated with producing an additional unit of output.
  - B) provide a per unit measure of costs.
  - C) fall as output rises.
  - D) are constant.

Answer: C

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

Refer to the information provided in Figure 8.1 below to answer the question that follows.

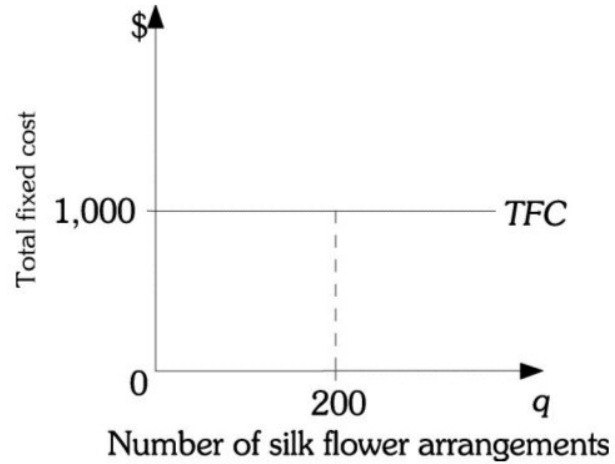


Figure 8.1

17) Refer to Figure 8.1 above. The total fixed costs for Cyndy's Floral Arrangements are \$1,000. If Cyndy's Floral Arrangements produces 200 silk flower arrangements, the average fixed costs are

- A) \$0.20.
- B) \$5.
- C) \$20.
- D) \$50.

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

Refer to the information provided in Figure 8.2 below to answer the question that follows.

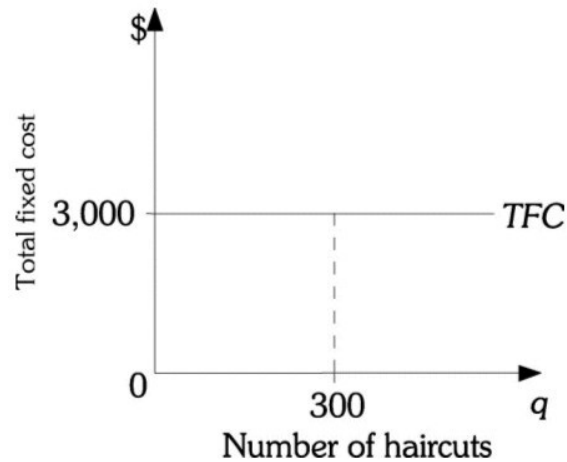


Figure 8.2

- 18) Refer to Figure 8.2 above. The total fixed costs for The Barber Shop are \$3,000. If The Barber Shop produces 300 hair cuts, the average fixed costs are

A) \$.20.  
B) \$5.  
C) \$10.  
D) \$100.

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

- 19) As output decreases, average fixed costs

A) decrease.  
B) initially decrease and then increase.  
C) remain constant.  
D) increase.

Answer: D

Diff: 1

Topic: Costs in the Short Run

Skill: Fact



20) Both Kate and Kyle own saltwater taffy factories. Kate's factory has low fixed costs and high variable costs. Kyle's factory has high fixed costs and low variable costs. Currently, each factory is producing 1,000 boxes of taffy at the same total cost. Complete the following statement with the correct answer. If each produces

- A) less, their costs will be equal.
- B) more, their costs will be equal.
- C) more, the costs of Kate's factory will exceed those of Kyle's factory.
- D) less, the costs of Kate's factory will exceed those of Kyle's factory.

Answer: C

Diff: 3

Topic: Costs in the Short Run

Skill: Conceptual

21) Short-run costs that do NOT depend on the level of output are

- A) total fixed costs only.
- B) total variable costs only.
- C) total costs only.
- D) both total variable costs and total costs.

Answer: A

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

22) Which statement is NOT true regarding the total variable cost curve?

- A) The total variable cost curve increases as output increases.
- B) The total variable cost curve shows the variable costs of production given current factor prices.
- C) The total variable cost curve starts at the origin.
- D) The total variable cost curve is a horizontal line.

Answer: D

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

23) A point on a total variable cost curve shows the \_\_\_\_\_ variable cost a firm will bear to produce a certain output.

- A) highest
- B) lowest
- C) change in
- D) average

Answer: B

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

- 24) \_\_\_\_\_ is(are) most likely a variable cost for a firm.
- A) The interest payments made on loans
  - B) The franchiser's fee that a restaurant must pay to the national restaurant chain
  - C) The monthly rent on office space that it leased for a year
  - D) The payroll taxes that are paid on employee wages

Answer: D

Diff: 3

Topic: Costs in the Short Run

Skill: Conceptual

- 25) \_\_\_\_\_ are likely a fixed cost of a firm.
- A) Wages paid to employees
  - B) The payments for supplies
  - C) Lease payments for office space
  - D) Travel expenses to meet with clients

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Conceptual

*Refer to the information provided in Table 8.1 below to answer the questions that follow.*

**Table 8.1**

<b>Produce</b>	<b>Using Techniques</b>	<b>Units of Variable K</b>	<b>Inputs L</b>
1 unit of output	A	8	8
	B	4	12
2 units of output	A	14	12
	B	8	20
3 units of output	A	16	12
	B	12	22

- 26) Refer to Table 8.1. Assuming the price of capital ( $K$ ) is \$10 per unit and the price of labor ( $L$ ) is \$5 per unit, what production technique should this firm use to produce 2 units of output?
- A) production technique A
  - B) production technique B
  - C) The firm is indifferent between production technique A and production technique B.
  - D) It is impossible to determine if the firm should select production technique A or B because total fixed costs are not given.

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

27) Refer to Table 8.1. Assuming the price of capital ( $K$ ) is \$10 per unit and the price of labor ( $L$ ) is \$5 per unit, the lowest long-run total cost of producing one unit of output is

- A) \$16.
- B) \$100.
- C) \$120.
- D) \$220.

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

28) Refer to Table 8.1. Assume that the relevant time period is the short run. Assuming the price of capital ( $K$ ) is \$10 per unit and the price of labor ( $L$ ) is \$5 per unit, this firm's total cost of producing one unit of output is

- A) \$100.
- B) \$120.
- C) \$220.
- D) indeterminate from this information.

Answer: D

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

29) Refer to Table 8.1. Assume that the relevant time period is the short run. Assuming the price of labor ( $L$ ) is \$5 per unit and the price of capital ( $K$ ) is \$10 per unit, the average total cost of producing two unit of output is

- A) \$20.
- B) \$40.
- C) \$90.
- D) \$100.

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

30) Refer to Table 8.1. Assuming the price of capital ( $K$ ) is \$10 per unit and the price of labor ( $L$ ) is \$5 per unit, the marginal cost of producing the third unit of output is

- A) \$30.
- B) \$40.
- C) \$50.
- D) indeterminate from this information.

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

31) Refer to Table 8.1. Assuming the price of capital ( $K$ ) is \$10 per unit and the price of labor ( $L$ ) is \$5 per unit, the firm will use production technique \_\_\_\_\_ to produce \_\_\_\_\_ of output.

- A) A; all three units
- B) B; all three units
- C) B; the first two units of output and production technique A to produce the third unit
- D) A; the first unit and production technique B to produce the second and third units

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

32) Marginal cost is the

- A) increase in total cost resulting from producing one more unit of output.
- B) average cost of production divided by output.
- C) increase in  $AVC$  resulting from producing one more unit of output.
- D) equivalent of average total cost.

Answer: A

Diff: 2

Topic: Costs in the Short Run

Skill: Definition

33) A firm will begin to experience diminishing returns at the output where marginal

- A) cost increases.
- B) cost decreases.
- C) product increases.
- D) both B and C

Answer: A

Diff: 2

Topic: Costs in the Short Run

Skill: Definition

34) Diminishing marginal returns implies

- A) decreasing average variable costs.
- B) decreasing marginal costs.
- C) increasing marginal costs.
- D) decreasing average fixed costs.

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Definition

35) Marginal cost is \_\_\_\_\_ average variable cost when \_\_\_\_\_.

- A) equal to; average total cost is minimized
- B) less than; total cost is maximized
- C) greater than; average fixed cost is minimized
- D) equal to; average variable cost is minimized.

Answer: D

Diff: 2

Topic: Costs in the Short Run

Skill: Conceptual

36) In a short run production process a(n) \_\_\_\_\_ marginal product of labor explains why marginal cost is positive and \_\_\_\_\_.

- A) zero; falls
- B) constant; rises
- C) increasing; does not change
- D) diminishing; rises

Answer: D

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

37) In the short run when the marginal product of labor \_\_\_\_\_, the marginal cost of an additional unit of output \_\_\_\_\_.

- A) rises; rises
- B) falls; falls
- C) rises; falls
- D) falls; doesn't change

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Fact

38) Total variable costs \_\_\_\_\_ with increasing output.

- A) always increase
- B) always decrease
- C) initially increase and then decrease
- D) initially decrease and then increase

Answer: A

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

39) One formula for  $MC$  is

- A)  $TVC/q$ .
- B)  $q/TVC$ .
- C)  $\Delta TVC/q$ .
- D)  $\Delta TVC/\Delta q$ .

Answer: D

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

40) One formula for  $AVC$  is

- A)  $q/TVC$ .
- B)  $TVC/q$ .
- C)  $\Delta TVC/\Delta q$ .
- D)  $\Delta q/\Delta TVC$ .

Answer: B

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

41) As output increases, in the short run,

- A) the difference between average total cost and average variable cost decreases.
- B) the difference between total cost and average variable cost decreases.
- C) marginal cost eventually increases.
- D) All of the above are correct.

Answer: A

Diff: 2

Topic: Costs in the Short Run

Skill: Conceptual

42) Because marginal cost is always \_\_\_\_\_ in the short run, total variable cost always \_\_\_\_\_ when output increases.

- A) positive; increases
- B) positive; decreases
- C) negative; increases
- D) negative; decreases

Answer: A

Diff: 2

Topic: Costs in the Short Run

Skill: Conceptual

43) In the short run marginal cost is positive and decreasing at output levels where total variable cost is \_\_\_\_\_ at a(n) \_\_\_\_\_ rate.

- A) increasing; increasing
- B) increasing; decreasing
- C) decreasing; increasing
- D) decreasing; decreasing

Answer: B

Diff: 3

Topic: Costs in the Short Run

Skill: Conceptual

44) In the short run marginal cost is positive and increasing at output levels where total variable cost is \_\_\_\_\_ at a(n) \_\_\_\_\_ rate.

- A) increasing; increasing
- B) increasing; decreasing
- C) decreasing; increasing
- D) decreasing; decreasing

Answer: A

Diff: 3

Topic: Costs in the Short Run

Skill: Conceptual

*Refer to the information provided in Figure 8.3 below to answer the questions that follow.*

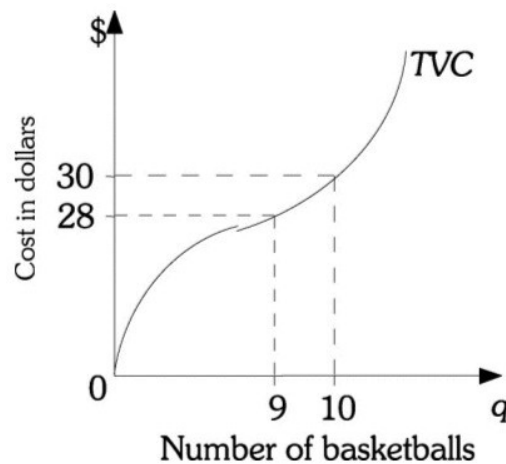


Figure 8.3

45) Refer to Figure 8.3. The marginal cost of the 10th basketball is

- A) \$2.
- B) \$3.
- C) \$3.05.
- D) \$5.80.

Answer: A

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

46) Refer to Figure 8.3. If total fixed costs are \$50, then average total cost of producing 10 basketballs is

- A) \$3.
- B) \$5.
- C) \$8.
- D) \$80.

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

47) Refer to Figure 8.3. The marginal cost of the ninth basketball is

- A) less than \$2.
- B) \$2.
- C) \$3.
- D) greater than \$3.

Answer: A

Diff: 3

Topic: Costs in the Short Run

Skill: Analytic

48) Labor is the only variable input for Elliot's dog-walking service. His labor costs are \$300 a day and his service walks 25 dogs per day. His labor costs increase to \$315.50 a day to walk 26 dogs per day. The marginal cost of walking that 26th dog is

- A) \$15.50
- B) \$19.50.
- C) \$29.50.
- D) indeterminate from the information given.

Answer: A

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic



Refer to the information provided in Table 8.2 below to answer the questions that follow.

Table 8.2							
Number of Earnings	TVC	MC	AVC	TFC	TC	AFC	ATC
0					100		
1		50					
2							95
3			46.67				
4					300		
5	270						

49) Refer to Table 8.2. If Sherry produces zero earrings, her total fixed costs are

- A) \$0.
- B) \$50.
- C) \$100.
- D) indeterminate from this information.

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

50) Refer to Table 8.2. If Sherry produces one pair of earrings, her total variable costs are

- A) \$50.
- B) \$100.
- C) \$150.
- D) indeterminate from this information.

Answer: A

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

51) Refer to Table 8.2. If Sherry produces two pairs of earrings, her marginal cost is

- A) \$40.
- B) \$45.
- C) \$72.50.
- D) \$122.50.

Answer: A

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

52) Refer to Table 8.2. If Sherry produces three pairs of earrings, her total variable costs are

- A) \$26.67.
- B) \$140.
- C) \$175.
- D) \$225.

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

53) Refer to Table 8.2. If Sherry produces five pairs of earrings, her total costs are

- A) \$320.
- B) \$360.
- C) \$370.
- D) \$400.

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

54) Refer to Table 8.2. If Sherry produces four pairs of earrings, her average fixed costs are

- A) \$4.
- B) \$20.
- C) \$25.
- D) \$100.

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

55) Refer to Table 8.2. Assume that Sherry's Earrings is producing in a perfectly competitive market and the market price for earrings is \$60. To maximize profits Sherry should produce \_\_\_\_\_ pairs of earrings.

- A) two
- B) three
- C) four
- D) five

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

Refer to the information provided in Table 8.3 below to answer the questions that follow.

Table 8.3						
Number of Earrings	TVC	MC	AVC	TF	TC	AFC ATC
0						
1	20					
2		10				30
3					110	
4			20			
5					180	

56) Refer to Table 8.3. What is the total cost of producing zero units of output?

- A) \$0
- B) \$30
- C) \$60
- D) indeterminate from the given information

Answer: A

Diff: 2

Topic: Costs in the Short Run

Skill: Conceptual

57) Refer to Table 8.3. The marginal cost of the fourth unit is \_\_\_\_\_ and the average total cost of the fourth unit is \_\_\_\_\_.

- A) \$10; \$30
- B) \$20; \$45
- C) \$30; \$35
- D) indeterminate from the given information

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

58) Refer to Table 8.3. From the information in the given table,

- A) the firm is in the long run.
- B) the firm experiences diminishing returns to its variable input.
- C) the marginal cost curve intersects the average total cost curve between 3 and 4 units of output.
- D) the difference between total cost and total variable cost decreases as output increases.

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

59) Refer to Table 8.3. If the firm is in a perfectly competitive industry with a market price of \$30 per unit, the firm will produce \_\_\_\_\_ units and earn a profit of \_\_\_\_\_ .

- A) three; \$20
- B) four; \$20
- C) four; -\$20
- D) five; \$30

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

60) If we know average total cost and the amount of output, then we can always calculate total cost by \_\_\_\_\_ average total cost \_\_\_\_\_ the amount of output.

- A) adding; and
- B) subtracting; from
- C) multiplying; by
- D) dividing; by

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

61) If the marginal cost curve is above the average variable cost curve, then

- A) average variable cost is increasing.
- B) average variable cost is decreasing.
- C) average variable cost is constant.
- D) marginal cost is decreasing.

Answer: A

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

62) Marginal cost intersects \_\_\_\_\_ at its minimum.

- A) total cost
- B) average total cost
- C) average fixed cost
- D) (B) and (C) are both correct.

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Fact

63) If the marginal cost curve is below the average variable cost curve, then

- A) average variable cost is increasing.
- B) average variable cost is decreasing.
- C) average variable cost is constant.
- D) marginal cost is increasing.

Answer: B

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

64) If the average variable cost curve is above the marginal cost curve, then

- A) marginal costs must be decreasing.
- B) marginal costs must be increasing.
- C) marginal costs can be either increasing or decreasing.
- D) average variable costs must be increasing.

Answer: C

Diff: 3

Topic: Costs in the Short Run

Skill: Fact

65) The marginal cost curve intersects the average variable cost curve at the \_\_\_\_\_ value of the average variable cost curve.

- A) maximum
- B) minimum
- C) zero
- D) average

Answer: B

Diff: 1

Topic: Costs in the Short Run

Skill: Conceptual

66) Twenty-five students in a class take a test for which the average grade is 75. Then a twenty-sixth student enters the class, takes the same test, and scores 70. The test average grade calculated with 26 students will

- A) rise above 75.
- B) fall below 75.
- C) change from 75 but the direction is unclear.
- D) still equal 75.

Answer: B

Diff: 1

Topic: Costs in the Short Run

Skill: Conceptual

67) If a firm's total costs are \$75 when it produces 10 units of output and \$80 when it produces 11 units of output, then the marginal cost of producing the 11th unit is

- A) \$1.
- B) \$5.
- C) \$8.09.
- D) \$10.

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

68) If a firm's total costs are \$100 when 10 units of output are produced and \$105 when 11 units of output are produced, the marginal cost of the 11th unit is

- A) \$1.
- B) \$3.
- C) \$5.
- D) \$9.36.

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

69) If the average variable cost of the fifth hat is \$30, then the total variable cost of five hats is

- A) \$6.
- B) \$150.
- C) \$1800.
- D) indeterminate from this information.

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

Refer to the information provided in Figure 8.4 below to answer the questions that follow.

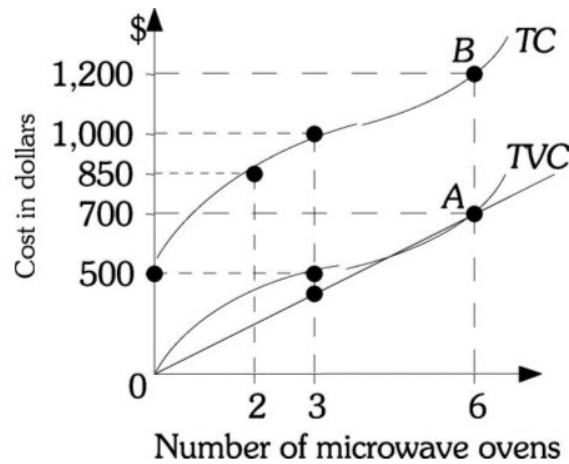


Figure 8.4

70) Refer to Figure 8.4. Micro Oven's average fixed costs of producing two units of output are

- A) \$250.
- B) \$425.
- C) \$500.
- D) indeterminate from this information.

Answer: A

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

71) Refer to Figure 8.4. If three microwave ovens are produced, Micro Oven's total variable costs are

- A) \$350.
- B) \$500.
- C) \$1000.
- D) indeterminate from this information.

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

72) Refer to Figure 8.4. If three microwave ovens are produced, average variable costs are

- A) \$166.67.
- B) \$333.33.
- C) \$500.
- D) \$1,500.

Answer: A

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

73) Refer to Figure 8.4. The marginal cost of the third microwave oven is

- A) \$133.33.
- B) \$150.
- C) \$350.
- D) indeterminate from this information.

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

74) Refer to Figure 8.4. Up to point A \_\_\_\_\_ costs are \_\_\_\_\_.

- A) marginal; decreasing
- B) marginal; increasing
- C) average variable; decreasing
- D) average variable; increasing

Answer: C

Diff: 3

Topic: Costs in the Short Run

Skill: Analytic

75) Refer to Figure 8.4. After point A \_\_\_\_\_ costs are \_\_\_\_\_.

- A) average total; increasing
- B) marginal; decreasing
- C) average variable; decreasing
- D) average variable; increasing

Answer: D

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

76) Refer to Figure 8.4. Marginal costs will equal average variable costs at

- A) two microwave ovens.
- B) three microwave ovens.
- C) six microwave ovens.
- D) an indeterminate number of microwave ovens from this information.

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic



77) Refer to Figure 8.4. Micro Oven's average total costs are \_\_\_\_\_ if it produces six microwave ovens.

- A) \$33.33
- B) \$83.33
- C) \$116.67
- D) \$200.00

Answer: D

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

78) Refer to Figure 8.4. The marginal cost of the sixth microwave oven is

- A) \$83.33.
- B) \$116.67.
- C) \$200.
- D) \$1200.

Answer: B

Diff: 3

Topic: Costs in the Short Run

Skill: Analytic

79) Refer to Figure 8.4. Average variable costs are minimized at an output level of

- A) 2.
- B) 3.
- C) 6.
- D) an indeterminate number based on the available information.

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

80) Refer to Figure 8.4. 's average fixed costs are \_\_\_\_\_ if it produces six microwave ovens.

- A) \$33.33
- B) \$83.33
- C) \$116.67
- D) indeterminate from this information

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

81) Refer to Figure 8.4. Micro Oven minimizes average total costs at \_\_\_\_\_ microwave ovens.

- A) two
- B) between three and five
- C) six
- D) greater than six

Answer: D

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

82) Refer to Figure 8.4. The vertical distance  $AB$  represents \_\_\_\_\_ costs.

- A) total fixed
- B) average fixed
- C) marginal
- D) average total

Answer: A

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

*Refer to the information provided in Figure 8.5 below to answer the questions that follow.*

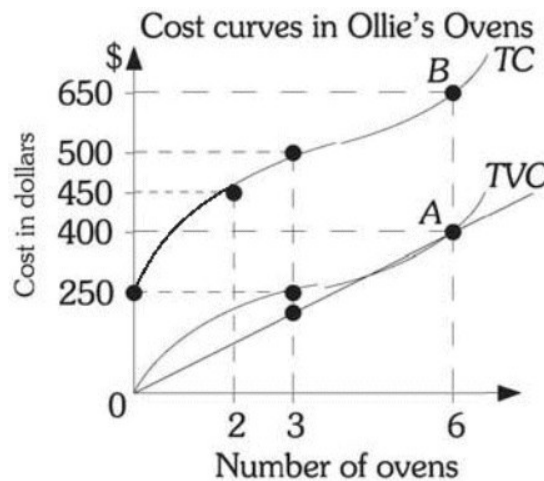


Figure 8.5

83) Refer to Figure 8.5. The total fixed costs for Ollie's Ovens are

- A) \$0.
- B) \$250.
- C) \$300.
- D) indeterminate from this information.

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

- 84) Refer to Figure 8.5. Average variable costs are \_\_\_\_\_ if Ollie's Ovens produces two ovens.
- A) \$100
  - B) \$200
  - C) \$225
  - D) indeterminate from this information.

Answer: A

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

- 85) Refer to Figure 8.5. Average variable costs are \_\_\_\_\_ if Ollie's Ovens produces three ovens.
- A) \$166.67
  - B) \$83.33
  - C) \$500
  - D) \$1,500

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

- 86) Refer to Figure 8.5. The marginal cost of the third oven is
- A) \$50.
  - B) \$100.
  - C) \$150.
  - D) indeterminate from this information.

Answer: A

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

Refer to the information provided in Figure 8.5 below to answer the questions that follow.

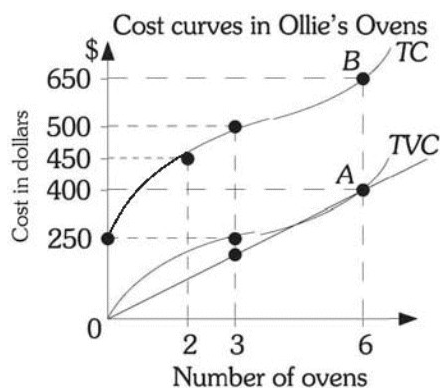


Figure 8.5

- 87) Refer to Figure 8.5. The marginal cost is equal to average variable cost when \_\_\_\_\_ ovens are produced.

A) two  
 B) three  
 C) six  
 D) indeterminate from this information.

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

- 88) Refer to Figure 8.5. The average total costs are minimized when \_\_\_\_\_ ovens are produced.

A) exactly six  
 B) more than six  
 C) less than six  
 D) indeterminate from this information.

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

- 89) Refer to Figure 8.5. The marginal cost of the sixth oven is

A) \$50.00.  
 B) \$66.67.  
 C) \$108.33.  
 D) indeterminate from this information.

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

90) A short run total cost schedule is a \_\_\_\_\_ cost schedule shifted upward by the amount of \_\_\_\_\_ cost.

- A) total fixed; marginal
- B) marginal; total variable
- C) total variable; total fixed
- D) total variable; marginal

Answer: C

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

91) There are outputs for which \_\_\_\_\_ costs exceed \_\_\_\_\_ costs in the short run.

- A) total fixed; total
- B) average variable; average total
- C) total variable; total
- D) average total; average variable

Answer: D

Diff: 1

Topic: Costs in the Short Run

Skill: Conceptual

92) Total cost is

- A)  $TFC - TVC$ .
- B)  $TFC/TVC$ .
- C)  $TFC + TVC$ .
- D)  $AFC + AVC$ .

Answer: C

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

93) Total cost refers to

- A) the full economic costs of production.
- B) the sum of average fixed cost and average variable cost.
- C) the fixed costs of production.
- D) the explicit costs of production.

Answer: A

Diff: 1

Topic: Costs in the Short Run

Skill: Definition

94) ATC is

- A)  $TC/q$ .
- B)  $q/TC$ .
- C)  $AFC - AVC$ .
- D)  $\Delta TC - \Delta q$ .

Answer: A

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

95) Average total cost

- A) measures the spread of overhead across output.
- B) is the average cost of producing each unit of output.
- C) is always increasing.
- D) is the sum of fixed cost and average variable cost.

Answer: B

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

96) The Framing Gallery frames posters and has total fixed costs of \$1,000. The Framing Gallery is currently framing \_\_\_\_\_ posters if its average variable cost is \$20 and its average total cost is \$30.

- A) 5
- B) 25
- C) 100
- D) an indeterminate number of

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

97) The average variable cost of producing 100 sundaes is \$3. At this level of output, average variable cost is minimized. Which of the following statements is TRUE?

- A) Marginal cost of the 100th sundae is \$300.
- B) Average total cost is minimized at an output greater than 100 sundaes.
- C) Average fixed cost is minimized at an output less than 100 sundaes.
- D) Total cost of producing 100 sundaes is \$300.

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

98) Average variable and average total costs get closer together as output increases because \_\_\_\_\_ as output increases.

- A) diminishing returns set in
- B) average fixed costs decrease
- C) marginal costs decrease
- D) total and total variable costs get closer together

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

*Refer to the information provided in Figure 8.6 below to answer the questions that follow.*

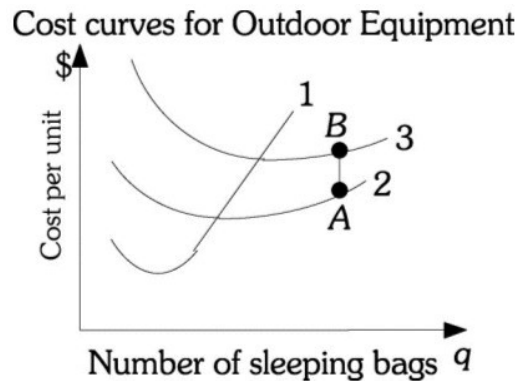


Figure 8.6

99) Refer to Figure 8.6. Curve 1 is Outdoor Equipment's \_\_\_\_\_ cost curve.

- A) marginal
- B) average variable
- C) average total
- D) average fixed

Answer: A

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

100) Refer to Figure 8.6. Outdoor Equipment's average total costs are minimized at the output level

- A) where Curves 1 and 2 intersect.
- B) where Curves 1 and 3 intersect.
- C) between the intersections of Curves 1 and 2 and Curves 1 and 3.
- D) indeterminate with the given information.

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

101) Refer to Figure 8.6. Curve 2 is Outdoor Equipment's \_\_\_\_\_ cost curve.

- A) marginal
- B) average variable
- C) average total
- D) average fixed

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

102) Refer to Figure 8.6. Curve 3 is Outdoor Equipment's \_\_\_\_\_ cost curve.

- A) marginal
- B) average variable
- C) average total
- D) average fixed

Answer: C

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

103) Refer to Figure 8.6. The vertical distance  $AB$  is Outdoor Equipment's \_\_\_\_\_ cost.

- A) marginal
- B) average fixed
- C) total fixed
- D) total

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Definition

104) If marginal cost is below average total cost, average total cost will

- A) be maximized.
- B) decrease.
- C) increase.
- D) remain constant.

Answer: B

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic

105) If marginal cost equals average total cost, average total cost will

- A) be maximized.
- B) decrease.
- C) increase.
- D) be minimized.

Answer: D

Diff: 2

Topic: Costs in the Short Run

Skill: Analytic



106) The short-run average total cost curve eventually begins to increase at an increasing rate because of

- A) diseconomies of scale phenomena.
- B) a constraint that does not allow the firm to change its production technology.
- C) diminishing returns phenomena.
- D) increasing returns to scale to capital.

Answer: C

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

107) The law of diminishing marginal returns

- A) results in average variable cost ( $AVC$ ), average total cost ( $ATC$ ), and marginal cost ( $MC$ ) curves eventually increasing at an increasing rate.
- B) results in  $MC$  but not  $AVC$  curves eventually increasing at an increasing rate.
- C) causes average fixed costs to decline continuously as output increases.
- D) causes the difference between average total cost and average variable cost to increase as output increases.

Answer: A

Diff: 2

Topic: Costs in the Short Run

Skill: Definition

108) In the short run a firm using variable labor and fixed capital inputs achieves the efficient (lowest cost) level of output at the minimum point on its \_\_\_\_\_ cost curve.

- A) average total
- B) total variable
- C) average fixed
- D) marginal

Answer: A

Diff: 2

Topic: Costs in the Short Run

Skill: Fact

109) A firm is producing output less than the output associated with the minimum point on the firm's short run average variable cost curve. At this level of output the firm uses its fixed capital input \_\_\_\_\_ and its variable labor input \_\_\_\_\_.

- A) efficiently; efficiently
- B) efficiently; inefficiently
- C) inefficiently; efficiently
- D) inefficiently; inefficiently

Answer: D

Diff: 3

Topic: Costs in the Short Run

Skill: Conceptual

110) Consider an output beyond the minimum point of a firm's short run average total cost curve. At this level of output the firm can use its \_\_\_\_\_ input at a lower average cost but only by using its \_\_\_\_\_ input at a higher average cost.

- A) fixed capital; variable labor
- B) variable labor; fixed capital
- C) variable capital; fixed labor
- D) fixed labor; variable capital

Answer: A

Diff: 3

Topic: Costs in the Short Run

Skill: Analytic

111) Related to the *Economics in Practice* on page 166: When considering expanding its student body a college should

- A) compare the marginal cost of educating an additional student to the tuition that student pays.
- B) compare the average total cost of educating an additional student to the tuition that student pays.
- C) definitely expand because education is very important and should be made available to as many people as possible.
- D) only consider doing so if they have sufficient housing.

Answer: A

Diff: 2

Topic: Costs in the Short Run: Economics in Practice

Skill: Conceptual

112) Related to the *Economics in Practice* on page 166: In higher education

- A) the average total cost of educating students equals the marginal cost of educating an additional student.
- B) the average total cost of educating students exceeds the marginal cost of educating an additional student.
- C) the average total cost of educating students is less than the marginal cost of educating an additional student.
- D) the total fixed cost of educating students is less than the marginal cost of educating an additional student.

Answer: B

Diff: 2

Topic: Costs in the Short Run: Economics in Practice

Skill: Fact

## 2 True/False

1) Average fixed costs rise continuously as quantity of output rises.

Answer: FALSE

Diff: 1

Topic: Costs in the Short Run

Skill: Fact

- 2) The increase in total cost that results from producing one more unit of output is the marginal cost.  
Answer: TRUE  
Diff: 2  
Topic: Costs in the Short Run  
Skill: Definition
- 3) The best combination of inputs at one level of production may not be best at other levels.  
Answer: TRUE  
Diff: 1  
Topic: Costs in the Short Run  
Skill: Fact
- 4) If marginal cost is increasing, then average variable cost must be increasing simultaneously.  
Answer: FALSE  
Diff: 1  
Topic: Costs in the Short Run  
Skill: Fact
- 5) Average total cost is minimized at a higher level of output than average variable cost.  
Answer: TRUE  
Diff: 1  
Topic: Costs in the Short Run  
Skill: Conceptual
- 6) When marginal cost is between average variable cost and average total cost, marginal cost is decreasing.  
Answer: FALSE  
Diff: 2  
Topic: Costs in the Short Run  
Skill: Conceptual
- 7) Average total cost of producing 100 units of output is \$5. If the marginal cost of producing the 101st unit is \$6, then average total cost of 101 units is less than \$5.  
Answer: FALSE  
Diff: 2  
Topic: Costs in the Short Run  
Skill: Conceptual
- 8) Total variable cost divided by output is marginal cost.  
Answer: FALSE  
Diff: 1  
Topic: Costs in the Short Run  
Skill: Definition

## 8.2 Output Decisions: Revenues, Costs, and Profit Maximization

### 1 Multiple Choice

1) Marginal revenue (MR) is

- A)  $TR/q$
- B)  $\Delta TR/\Delta q$ .
- C)  $P^*q$
- D)  $P/q$

Answer: B

Diff: 1

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Definition

2) The main decision for a profit maximizing perfectly competitive firm is NOT what \_\_\_\_\_ but what \_\_\_\_\_.

- A) level of output to produce; price to charge
- B) price to charge; level of output to produce
- C) level of output to produce; total revenue to achieve
- D) price to charge; total cost to achieve

Answer: B

Diff: 1

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Fact

3) If an individual perfectly competitive firm charges a price above the industry equilibrium price while competitors charge the equilibrium price, the firm will

- A) sell all that it can produce and forgo no revenue.
- B) sell all that it can produce and gain more revenue with the higher price.
- C) sell part of what it can produce and forgo some revenue that it could have had.
- D) not sell any of what it produces.

Answer: D

Diff: 1

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Fact

4) If an individual perfectly competitive firm charges a price below the industry equilibrium price while competitors charge the equilibrium price, the firm will

- A) not sell any of what it produces.
- B) sell part of what it produces but forgo no revenue.
- C) sell all that it produces and forgo no revenue.
- D) sell all that it produces but forgo revenue that it could have had.

Answer: D

Diff: 1

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Fact

5) Any firm's total revenue equals

- A)  $MR \times q$ .
- B)  $P \times q$ .
- C)  $P/q$ .
- D)  $MR/q$ .

Answer: B

Diff: 1

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Fact

6) The added revenue that a firm takes in when it increases output by one additional unit is \_\_\_\_\_ revenue.

- A) total
- B) marginal
- C) variable
- D) fixed

Answer: B

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

7) Marginal revenue is the

- A) ratio of total revenue to quantity.
- B) difference between total revenue and total costs.
- C) added revenue that a firm takes in when it increases output by one additional unit.
- D) additional profit the firm earns when it sells an additional unit of output.

Answer: C

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Definition

8) In perfect competition, a firm's marginal revenue curve

- A) and the demand curve facing the firm are identical.
- B) is always above the demand curve facing the firm.
- C) is always below the demand curve facing the firm.
- D) intersects the demand curve when marginal revenue is minimized.

Answer: A

Diff: 1

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Fact

9) In perfect competition, a firm's marginal revenue curve is

- A) downward sloping.
- B) upward sloping.
- C) horizontal.
- D) vertical.

Answer: C

Diff: 1

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Fact

10) The relationship between the price that a perfectly competitive firm can charge buyers and the firm's marginal revenue is that the price is \_\_\_\_\_ marginal revenue over all output.

- A) above
- B) below
- C) equal to
- D) sometimes above and sometimes below

Answer: C

Diff: 1

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Fact

11) Profit-maximizing firms want to maximize the difference between \_\_\_\_\_ revenue and \_\_\_\_\_ cost.

- A) total; marginal
- B) total; total
- C) marginal; marginal
- D) marginal; average

Answer: B

Diff: 1

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Fact

12) Assume Dell Computer Company operates in a perfectly competitive market producing 5,000 computers per day. At this output level, price exceeds the firm's marginal and average variable costs. It follows that producing one more computer will cause this firm's

- A) total cost to decrease.
- B) profits to increase.
- C) profits to decrease.
- D) profits to remain unchanged.

Answer: B

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

- 13) Assume Dell Computer Company operates in a perfectly competitive market producing 5,000 computers per day. At this output level, price exceeds this firm's marginal and average variable costs. To maximize profits, Dell should

- A) make no adjustments as they are already maximizing their profits.
- B) increase their output.
- C) decrease their output.
- D) stop producing since it is earning a loss.

Answer: B

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

- 14) Assume Dell Computer Company operates in a perfectly competitive market producing 5,000 computers per day. At this output level, marginal cost exceeds this firm's price.

Assuming price exceeds average variable cost, to maximize profits Dell should

- A) make no adjustments as they are already maximizing their profits.
- B) increase their output.
- C) decrease their output.
- D) stop producing since it is earning a loss.

Answer: C

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

- 15) Assume Dell Computer Company operates in a perfectly competitive market producing 5,000 computers per day. At this output level, price equals this firm's marginal cost.

Assuming price exceeds average variable cost, to maximize profits Dell should

- A) make no adjustments as they are already maximizing their profits.
- B) increase their output.
- C) decrease their output.
- D) stop producing since it is earning a loss.

Answer: A

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

Refer to the information provided in Table 8.5 below to answer the following questions.

Table 8.5				
Number of Fruit Baskets	TFC	TVC	TC	MC
0	\$50	\$0	\$50	--
1	50	10	60	10
2	50	15	65	5
3	50	21	71	6
4	50	31	81	10
5	50	46	96	15
6	50	68	118	22

- 16) Refer to Table 8.5. Assume that Exotic Fruit sells fruit baskets in a perfectly competitive market. The market price of a fruit basket is \$22. To maximize profits, Exotic Fruit should sell \_\_\_\_\_ fruit basket(s) and their profit is \_\_\_\_\_ .

A) three; \$5  
 B) four; \$7  
 C) five; \$14  
 D) six; \$14

Answer: D

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

- 17) Refer to Table 8.5. Assume that Exotic Fruit sells fruit baskets in a perfectly competitive market. The market price of a fruit basket is \$15. To maximize profits, Exotic Fruit should sell \_\_\_\_\_ fruit basket(s) and their profit it \_\_\_\_\_ .

A) zero; \$0  
 B) two; -\$35  
 C) three; -\$26  
 D) five; -\$21

Answer: D

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

- 18) If a firm's demand curve is perfectly elastic, then at the profit maximizing level of output

A)  $P > MR > MC$ .  
 B)  $P = MR = MC$ .  
 C)  $P < MR < MC$ .  
 D)  $P > 0$  and  $MR = 0$ .

Answer: B

Diff: 3

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Conceptual



- 19) If a profit maximizing firm is currently producing output where  $MR = MC$ , it should
- A) increase output so that marginal revenue is less than marginal cost.
  - B) decrease output so that marginal revenue will be greater than marginal cost and the firm's profit will increase.
  - C) not change output because it is already maximizing profit.
  - D) exit the industry.

Answer: C

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Conceptual

- 20) If a firm is producing where  $MR > MC$
- A) the revenue gained by producing one more unit of output exceeds the cost incurred by doing so.
  - B) the revenue gained by producing one more unit of output equals the cost incurred by doing so.
  - C) the revenue gained by producing one more unit of output is less than the cost incurred by doing so.
  - D) the firm is already maximizing profits because revenue is being increased by more than costs.

Answer: A

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

- 21) Joe's Butcher Shop is producing where  $MR = MC$ , Joe's Butcher Shop must be
- A) earning a zero economic profit.
  - B) incurring a loss.
  - C) maximizing profits.
  - D) maximizing revenue but not maximizing profits.

Answer: C

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

- 22) The profit-maximizing level for all firms, regardless of industry structure, is the output level where
- A)  $TR = MC$ .
  - B)  $P = MC$ .
  - C)  $ATC = P$ .
  - D)  $MC = MR$ .

Answer: D

Diff: 1

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Fact

Refer to the information provided in Figure 8.7 below to answer the question that follows.

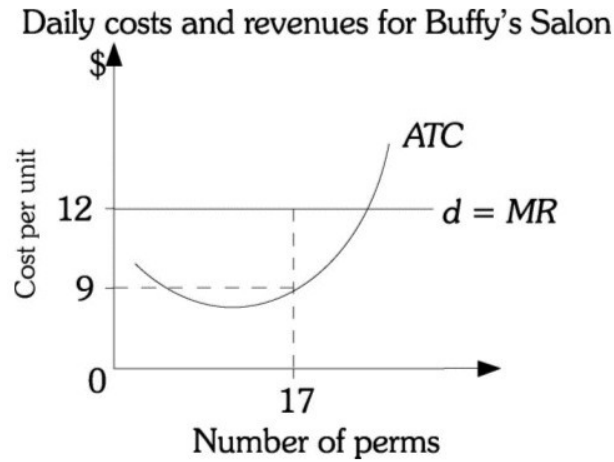


Figure 8.7

23) Refer to Figure 8.7. If Buffy gives 17 perms per day, her daily profit is

- A) \$3.
- B) \$51.
- C) \$153.
- D) \$204.

Answer: B

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

24) A firm in a perfectly competitive industry produces its profit-maximizing quantity, 40 units. Industry price is \$3, total fixed costs are \$45, and total variable costs are \$60. The firm's economic profit is

- A) \$15.
- B) \$30.
- C) \$35.
- D) \$60.

Answer: A

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

25) An individual wheat farmer produces wheat in a perfectly competitive market. An increase in the market demand for wheat will cause the farmer's marginal revenue to \_\_\_\_\_ and his profit maximizing level of output to \_\_\_\_\_.

- A) increase; increase
- B) increase; decrease
- C) decrease; increase
- D) decrease; decrease

Answer: A

Diff: 3

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Conceptual

26) Corn is produced in a perfectly competitive market. The demand for ethanol decreases. This will cause the individual corn farmer's marginal revenue to \_\_\_\_\_ and their profit maximizing level of output to \_\_\_\_\_.

- A) increase; increase
- B) increase; decrease
- C) decrease; increase
- D) decrease; decrease

Answer: D

Diff: 3

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Conceptual

27) Strawberries, a normal good, are produced in a perfectly competitive market. Average consumer incomes increase. This will cause the individual strawberry farmer's marginal revenue to \_\_\_\_\_ and their profit maximizing level of output to \_\_\_\_\_.

- A) increase; increase
- B) increase; decrease
- C) decrease; increase
- D) decrease; decrease

Answer: A

Diff: 3

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Conceptual

28) A farmer producing bushels of soybeans in the perfectly competitive soybean industry is currently maximizing profits. If the market price of soybeans falls and the farmer adjusts output to the new price, he will produce \_\_\_\_\_ soybeans and make \_\_\_\_\_ profit.

- A) fewer; the same
- B) fewer; less
- C) more; more
- D) the same bushels of; the same

Answer: B

Diff: 3

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Conceptual

Refer to the information provided in Figure 8.8 below to answer the questions that follow.

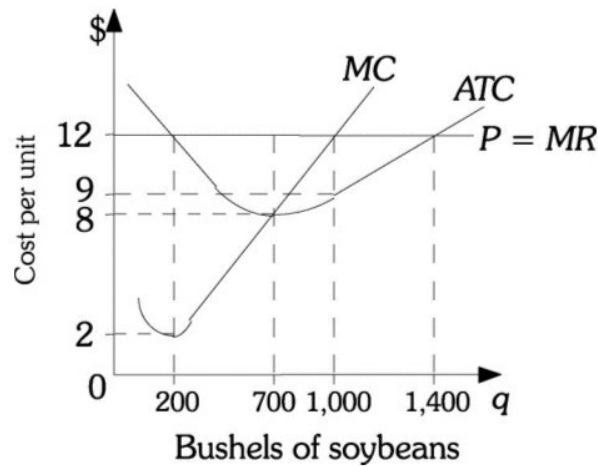


Figure 8.8

29) Refer to Figure 8.8. A soybean farmer's profit-maximizing level of output is \_\_\_\_\_ units of output.

- A) 200
- B) 700
- C) 1,000
- D) 1,400

Answer: C

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

30) Refer to Figure 8.8. If this farmer is producing the profit-maximizing level of output, her profit is

- A) \$0.
- B) \$2,800.
- C) \$3,000.
- D) \$12,000.

Answer: C

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

31) Refer to Figure 8.8. What is the total cost of producing the profit maximizing level of output?

- A) \$9.
- B) \$1,000.
- C) \$5,600.
- D) \$9,000.

Answer: D

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

32) Refer to Figure 8.8. If the market price of soybeans falls to \$8, then to maximize profits this farmer should produce

- A) 200 bushels of soybeans.
- B) 700 bushels of soybeans.
- C) 1,000 bushels of soybeans.
- D) a level of output that is indeterminate from this information.

Answer: B

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

33) Refer to Figure 8.8. If this farmer produces the profit maximizing level of soybeans when the market price is \$8 per bushel, then her total revenue would be

- A) \$1,200.
- B) \$2,800.
- C) \$5,600.
- D) \$8,400.

Answer: C

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

34) Refer to Figure 8.8. If this farmer produces the profit maximizing level of soybeans when the market price is \$8 per bushel, then her profit would be

- A) \$0.
- B) \$2,800.
- C) \$5,600.
- D) \$8,000.

Answer: A

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

Refer to the information provided in Figure 8.9 below to answer the questions that follow.

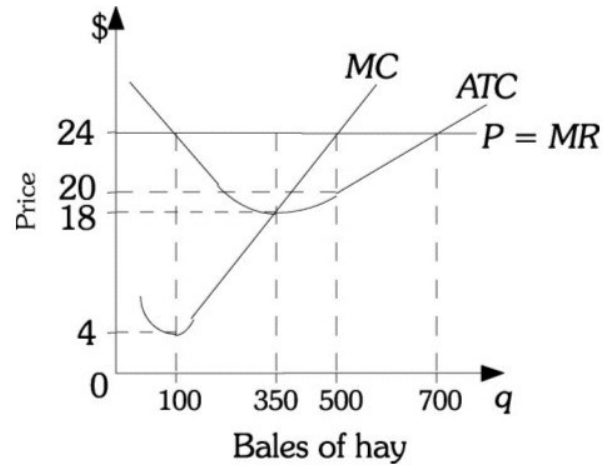


Figure 8.9

35) Refer to Figure 8.9. This farmer's profit-maximizing level of output is \_\_\_\_\_ units of output.

- A) 100
- B) 350
- C) 500
- D) 700

Answer: C

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

36) Refer to Figure 8.9. If this farmer is producing the profit maximizing level of output, her profit is

- A) \$0.
- B) \$1,000.
- C) \$2,000.
- D) \$3,000.

Answer: C

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

37) Refer to Figure 8.9. If the market price of hay falls to \$18, then to maximize profits this farmer should produce

- A) 350 bales of hay.
- B) 500 bales of hay.
- C) 750 bales of hay.
- D) a level of output that is indeterminate from this information.

Answer: A

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

38) Refer to Figure 8.9. If this farmer produces the profit maximizing level of hay when the market price is \$18 per bale, her total revenue would be

- A) \$1,200.
- B) \$2,800.
- C) \$5,600.
- D) \$6,300.

Answer: D

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

39) Refer to Figure 8.9. If this farmer produces the profit maximizing quantity when the market price is \$18, her profit is

- A) \$0.
- B) \$700.
- C) \$2,000.
- D) indeterminate from this information.

Answer: A

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

40) A perfectly competitive firm will earn positive economic profits in the range of output for which the firm's price is \_\_\_\_\_ its minimum average total cost.

- A) below
- B) above
- C) equal to
- D) below its marginal cost and

Answer: B

Diff: 3

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

41) If a perfectly competitive firm's average total cost curve is above its demand schedule at every level of output, then the firm will earn \_\_\_\_\_ profits.

- A) positive
- B) breakeven
- C) negative
- D) zero

Answer: C

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

42) A perfectly competitive firm breaks even at the level of output where

- A)  $P > ATC$ .
- B)  $P < ATC$ .
- C)  $P = ATC$ .
- D)  $P = MC$ .

Answer: C

Diff: 3

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

43) If  $P = MC$  and  $MC > ATC$ , then a perfectly competitive firm will earn \_\_\_\_\_ profits.

- A) positive
- B) zero
- C) negative
- D) breakeven

Answer: A

Diff: 3

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

44) If a perfectly competitive firm is currently producing where  $P = MC$  and  $MC = ATC$ , then the firm will earn \_\_\_\_\_ profits.

- A) positive
- B) zero
- C) negative
- D) above normal

Answer: B

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic



- 45) If industry supply increases while the industry demand remains the same, then an individual firm in a perfectly competitive industry currently earning positive profits will see its profits
- A) increase.
  - B) not change.
  - C) decrease.
  - D) impossible to determine

Answer: C

Diff: 3

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

- 46) If an industry supply curve decreases while the industry demand curve remains the same, then an individual firm in a perfectly competitive industry currently earning losses will see its losses
- A) increase.
  - B) not change.
  - C) decrease.
  - D) impossible to determine

Answer: C

Diff: 3

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

- 47) Perfectly competitive firms
- A) sell homogeneous products.
  - B) are price takers.
  - C) are small relative to the size of the market.
  - D) All of the above are correct.

Answer: D

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Definition

- 48) The rising part of a perfectly competitive firm's \_\_\_\_\_ cost curve is the firm's short-run \_\_\_\_\_ curve.
- A) average total; supply
  - B) average variable; demand
  - C) average fixed; demand
  - D) marginal; supply

Answer: D

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Conceptual

- 49) The law of supply holds for perfectly competitive firms assuming that each firm tries to
- A) maximize profits.
  - B) minimize total costs.
  - C) maximize revenue.
  - D) minimize variable costs.

Answer: A

Diff: 1

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Fact

*Refer to the information provided in Figure 8.10 below to answer the question that follows.*

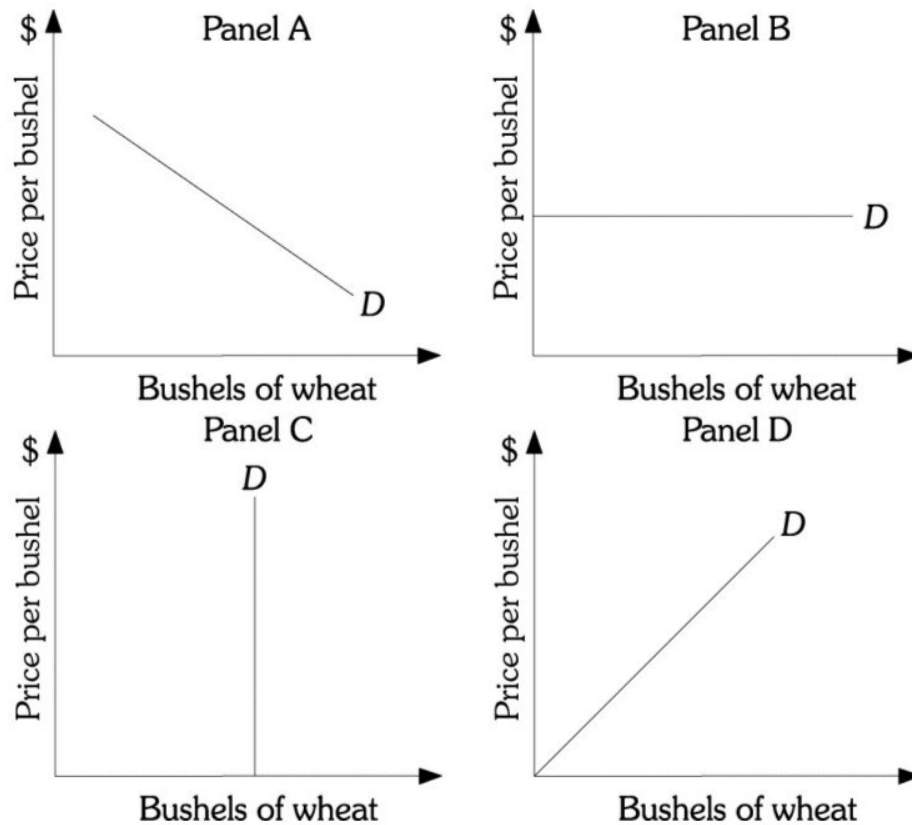


Figure 8.10

- 50) Refer to Figure 8.10. Panel \_\_\_\_\_ represents the demand curve facing a perfectly competitive producer of wheat.
- A) A
  - B) B
  - C) C
  - D) D

Answer: B

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Analytic

51) Jerry sells cherry sno-cones along the boardwalk in New Jersey. During the summer this is a perfectly competitive business, and Jerry faces a perfectly price elastic demand curve. If he wants to try to increase revenues, he should

- A) raise the price of his sno-cones to make more per sale.
- B) lower the price of his sno-cones to try to sell more.
- C) keep the price the same but produce more to increase revenues.
- D) do nothing since he can do nothing to increase revenue.

Answer: C

Diff: 3

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Conceptual

52) A firm in a perfectly competitive market has no control over price because

- A) the government imposes price ceilings on the products produced in perfectly competitive markets.
- B) any firm may freely enter into and/or exit from the market.
- C) each firm's product perfectly substitutes for every other firm's product.
- D) the market demand for products produced in perfectly competitive markets is perfectly price elastic.

Answer: C

Diff: 1

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Fact

53) The closest example of a perfectly competitive industry is

- A) fast foods.
- B) beer.
- C) gasoline stations.
- D) soybeans.

Answer: D

Diff: 3

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Conceptual

Refer to the information provided in Figure 7.13 below to answer the questions that follow.

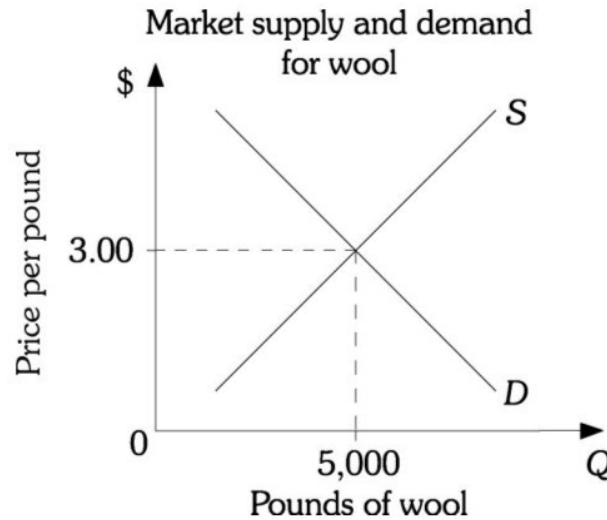


Figure 7.13

- 54) Refer to the figure above. Assuming the wool market (industry) is perfectly competitive, each wool producer faces a(n) \_\_\_\_\_ demand curve starting at \$3.00 per pound.

A) downward sloping  
 B) upward sloping  
 C) vertical  
 D) horizontal

Answer: D

Diff: 1

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Fact

- 55) Refer to figure above. Assuming the coffee market (industry) is perfectly competitive, each coffee producer faces a(n) \_\_\_\_\_ demand curve starting at \$4.00 per pound.

A) downward sloping  
 B) upward sloping  
 C) vertical  
 D) horizontal

Answer: D

Diff: 3

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Conceptual

56) A market demand curve is

- A) downward sloping.
- B) upward sloping.
- C) perfectly elastic.
- D) perfectly inelastic.

Answer: A

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Definition

57) If a firm in a perfectly competitive industry raises its price above the market price, its

- A) total revenue will increase.
- B) profit will increase.
- C) sales will drop to zero.
- D) demand curve will become downward sloping.

Answer: C

Diff: 3

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Conceptual

58) A firm facing a perfectly price elastic demand curve, *ceteris paribus*

- A) can sell all it produces only by lowering its price below the market price.
- B) can raise its price and not lose all its customers.
- C) will sell the same amount regardless if it raises or lowers the price it charges.
- D) will have zero quantity demanded if it raises its price above the market price.

Answer: D

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Fact

59) It is difficult for a wool producer in a perfectly competitive wool industry to make excess profits because

- A) wool producers are "price takers."
- B) wool producers in the industry do not "differentiate" their products.
- C) the demand curve facing each wool producer is perfectly elastic.
- D) entry into the wool industry is free.

Answer: D

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Definition

60) If the wool industry is perfectly competitive, the market demand curve for wool is \_\_\_\_\_ and an individual wool producer's demand curve is \_\_\_\_\_.

- A) downward sloping; horizontal
- B) horizontal; downward sloping
- C) horizontal; horizontal
- D) downward sloping; downward sloping

Answer: A

Diff: 3

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Conceptual

61) Free entry implies that

- A) a perfectly competitive firm can never earn a profit.
- B) if an industry's existing firms make excessively high profits, new firms are likely to enter the industry.
- C) the government regulates the number of firms it allows in an industry.
- D) firms will always earn above normal profit, as new firms can enter the industry at any time they like.

Answer: B

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Definition

62) Economists do NOT consider the fast-food industry perfectly competitive because

- A) the government strictly regulates entry and exit.
- B) fast-food products are heterogeneous.
- C) fast food firms face a large number of customers each relatively small.
- D) there are a large number of fast-food firms.

Answer: B

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Definition

63) Related to the *Economics in Practice* on page 170: Janice owns an ice cream shop. Monthly revenue is \$12,000. Her fixed cost of operation include rent, electricity, interest on a loan, etc. and come to \$3,500 per month. Her variable costs include wages for her workers and ice cream supplies which are \$4,000 per month. Janice is trying to decide whether to stay in business or return to her previous occupation as an elementary school teacher. Janice should return to teaching only if she earns more than \_\_\_\_\_ a month.

- A) \$4,500
- B) \$8,000
- C) \$8,500
- D) She should return to teaching regardless of her salary because education is the most important career anyone can have.

Answer: A

Diff: 2

Topic: Output Decisions: Economics in Practice

Skill: Analytic

- 64) Related to the *Economics in Practice* on page 170: You are the owner of an ice cream shop. You normally close at 8pm, but are considering staying open an additional hour. You
- A) should definitely stay open as your profits will increase as your sales increase.
  - B) should only stay open if the additional revenue you generate exceeds the average total cost of operation.
  - C) should only stay open if the additional revenue you generate exceeds the marginal cost of operating an additional hour.
  - D) work too hard -- don't stay open any later.

Answer: C

Diff: 2

Topic: Output Decisions: Economics in Practice

Skill: Conceptual

## 2 True/False

- 1) In perfectly competitive industries all firms supply a homogeneous product.

Answer: TRUE

Diff: 1

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Fact

- 2) A firm's demand curve in a perfectly competitive industry is price inelastic.

Answer: FALSE

Diff: 1

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Fact

- 3) The total revenue curve for a perfectly competitive firm will be a straight line with positive slope.

Answer: TRUE

Diff: 1

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Fact

- 4) The marginal revenue curve for a perfectly competitive firm will be downward sloping.

Answer: FALSE

Diff: 1

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Fact

- 5) Marginal costs reflect changes in variable costs.

Answer: TRUE

Diff: 1

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Fact

- 6) The short run is a period of less than one year.

Answer: FALSE

Diff: 2

Topic: Output Decisions: Revenues, Costs, and Profit Maximization

Skill: Definition

- 7) The shut-down decision is a short-run decision.  
Answer: TRUE  
Diff: 2  
Topic: Output Decisions: Revenues, Costs, and Profit Maximization  
Skill: Definition
- 8) If demand in a perfectly competitive market decreases, then an individual firm in that industry will see its profits fall.  
Answer: TRUE  
Diff: 2  
Topic: Output Decisions: Revenues, Costs, and Profit Maximization  
Skill: Conceptual
- 9) For a perfectly competitive firm, when  $P=MC=ATC$  the firm should reduce its output so as to increase its profits.  
Answer: FALSE  
Diff: 2  
Topic: Output Decisions: Revenues, Costs, and Profit Maximization  
Skill: Conceptual
- 10) Firms maximize their profits by producing the output level where  $MR=ATC$ .  
Answer: FALSE  
Diff: 2  
Topic: Output Decisions: Revenues, Costs, and Profit Maximization  
Skill: Conceptual
- 11) Perfectly competitive firms minimize their losses by producing the output level where  $P=MR=AVC$ .  
Answer: FALSE  
Diff: 2  
Topic: Output Decisions: Revenues, Costs, and Profit Maximization  
Skill: Conceptual
- 12) The upward sloping portion of the perfectly competitive firm's average variable cost curve is the firm's short run supply curve.  
Answer: FALSE  
Diff: 2  
Topic: Output Decisions: Revenues, Costs, and Profit Maximization  
Skill: Conceptual
- 13) Perfectly competitive firms sell heterogeneous products.  
Answer: FALSE  
Diff: 1  
Topic: Output Decisions: Revenues, Costs, and Profit Maximization  
Skill: Definition
- 14) Perfectly competitive firms are price takers.  
Answer: TRUE  
Diff: 1  
Topic: Output Decisions: Revenues, Costs, and Profit Maximization  
Skill: Definition



*Principles of Microeconomics, 9e - Test Item File 2 (Case/Fair/Oster)*  
**Chapter 9 Long-Run Costs and Output Decisions**

**9.1 Short-Run Conditions and Long-Run Conditions**

**1 Multiple Choice**

- 1) Assume firms in an industry break even. New investors \_\_\_\_\_ attracted to the industry and current ones \_\_\_\_\_ running away from it.

A) are not; are not  
B) are not; are  
C) are; are not  
D) are; are

Answer: A

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

- 2) Firms that are "breaking even" are
- A) earning zero economic profits.  
B) earning less than a normal rate of return.  
C) shutting down in the short run.  
D) All of the above are correct.

Answer: A

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Definition

- 3) Firms earning a profit will want to \_\_\_\_\_ their profits in the short run while firms suffering losses will want to \_\_\_\_\_ their losses.

A) maximize; maximize  
B) maximize; minimize  
C) minimize; maximize  
D) minimize; minimize

Answer: B

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

- 4) In the short run,
- A) all firms that earn a loss will shut down.  
B) if current firms are earning a profit, new firms will enter the industry.  
C) firms act such that they minimize losses or maximize profits.  
D) All of the above are correct.

Answer: C

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Conceptual

*Refer to the information provided below in Scenario 9.1 to answer the following questions.*

SCENARIO 9.1: Amy borrowed \$40,000 from her parents to open a bagel shop. She pays her parents a 5% yearly return on the money they lent her. Her other yearly fixed costs equal \$18,000. Her variable costs equal \$40,000. In her first year, Amy sold 40,000 dozen at a price of \$2.50 per dozen.

5) Refer to Scenario 9.1. Amy's total fixed costs equal

- A) \$2,000.
- B) \$18,000.
- C) \$20,000.
- D) \$22,000.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

6) Refer to Scenario 9.1. Amy's total costs equal

- A) \$20,000.
- B) \$40,000.
- C) \$60,000.
- D) \$100,000.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

7) Refer to Scenario 9.1. Amy's profit is

- A) \$0.
- B) \$20,000.
- C) \$30,000.
- D) \$40,000.

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

*Refer to the information provided below in Scenario 9.2 to answer the following questions.*

SCENARIO 9.2: Tom borrowed \$80,000 from his parents to open a donut stand. He agrees to pay his parents a 5% yearly return on the money they lent him. His other yearly fixed costs equal \$16,000. His variable costs equal \$60,000. He sold 50,000 dozen donuts during the year at a price of \$3.00 per dozen.

8) Refer to Scenario 9.2. Tom's total fixed costs equal

- A) \$4,000.
- B) \$16,000.
- C) \$20,000.
- D) \$80,000.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

9) Refer to Scenario 9.2. Tom's total costs equal

- A) \$20,000.
- B) \$40,000.
- C) \$60,000.
- D) \$80,000.

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

10) Refer to Scenario 9.2. Tom's total revenue was

- A) \$60,000.
- B) \$80,000.
- C) \$100,000.
- D) \$150,000.

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

11) Refer to Scenario 9.2. Tom's profit is

- A) \$0.
- B) \$30,000.
- C) \$50,000.
- D) \$70,000.

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

*Refer to the information provided below in Scenario 9.3 to answer the following questions.*

SCENARIO 9.3: Investors put up \$1,040,000 to construct a building and purchase all equipment for a new restaurant. The investors expect to earn a minimum return of 10 per cent on their investment. The restaurant is open 52 weeks per year and serves 900 meals per week. The fixed costs are spread over the 52 weeks (i.e. prorated weekly). Included in the fixed costs is the 10% return to the investors and \$2,000 in other fixed costs. Variable costs include \$2,000 in weekly wages, and \$600 per week in materials, electricity, etc. The restaurant charges \$8 on average per meal.

12) Refer to Scenario 9.3. The normal return to the investors on a weekly basis is

- A) \$600.
- B) \$1,000.
- C) \$2,000.
- D) \$4,500.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

13) Refer to Scenario 9.3. Total fixed costs per week are

- A) \$1,000.
- B) \$2,000.
- C) \$3,000.
- D) \$4,000.

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

14) Refer to Scenario 9.3. Total variable costs per week are

- A) \$600.
- B) \$1,000.
- C) \$2,600.
- D) \$4,000.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

15) Refer to Scenario 9.3. Total cost per week is

- A) \$1,600.
- B) \$2,000.
- C) \$5,000.
- D) \$6,600.

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

16) Refer to Scenario 9.3. Total revenue per week is

- A) \$6,000.
- B) \$7,200.
- C) \$8,100.
- D) \$9,500.

Answer: B

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

17) Refer to Scenario 9.3. Economic profit per week is

- A) -\$400.
- B) \$0.
- C) \$600.
- D) \$900.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

18) Refer to Scenario 9.3. The restaurant is making \_\_\_\_\_ economic profits per week.

- A) positive
- B) zero
- C) negative
- D) breakeven

Answer: A

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

19) Refer to Scenario 9.3. If the restaurant were to shut down, losses per week would be

- A) \$2,000.
- B) \$3,600.
- C) \$4,000.
- D) \$7,200.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

20) Refer to Scenario 9.3. The operating profit per week of the restaurant is

- A) \$0.
- B) \$2,900.
- C) \$4,600.
- D) \$4,900.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

*Refer to the information provided below in Scenario 9.4 to answer the following questions.*

SCENARIO 9.4: Sponsors invest \$250,000 in a new deli on the promise that they will earn a return of 10% per year on their investment. The deli sells 52,000 sandwiches per year. The deli's fixed costs include the return to investors and \$79,000 in other fixed costs. Variable costs consist of wages (\$1000 per week) plus materials, electricity, etc. (\$3000 per week). The deli is open 52 weeks per year.

- 21) Refer to Scenario 9.4. The deli's annual fixed costs sum to \_\_\_\_\_ .
- A) \$25,000
  - B) \$79,000
  - C) \$104,000
  - D) \$208,000

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

- 22) Refer to Scenario 9.4. The deli's annual total costs sum to \_\_\_\_\_ .
- A) \$79,000
  - B) \$104,000
  - C) \$208,000
  - D) \$312,000

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

- 23) Refer to Scenario 9.4. The deli is earning exactly a normal profit. Thus, the average price per sandwich must be \_\_\_\_\_ .
- A) \$1.52
  - B) \$2
  - C) \$4
  - D) \$6

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

- 24) Refer to Scenario 9.4. The deli's profit \_\_\_\_\_ when the average price per sandwich is \$7.50.
- A) \$78,000
  - B) \$182,000
  - C) \$286,000
  - D) \$311,000

Answer: A

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

Refer to the information provided below in Figure 9.1 to answer the questions that follow.

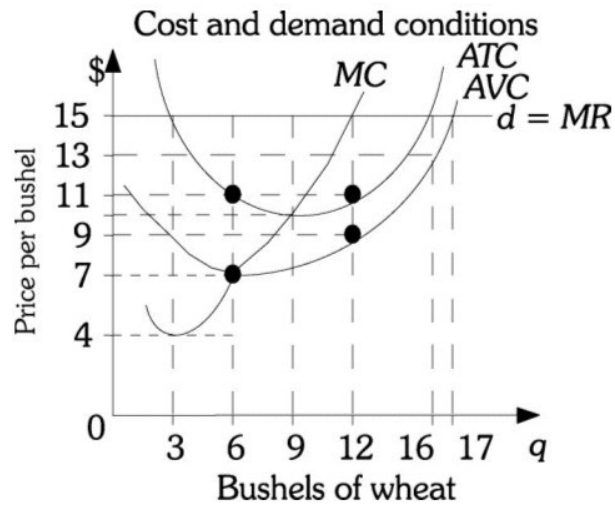


Figure 9.1

25) Refer to Figure 9.1. This farmer maximizes profits by producing \_\_\_\_\_ bushels of wheat.

- A) 6
- B) 9
- C) 12
- D) 16

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

26) Refer to Figure 9.1. If this farmer maximizes profits, his total costs will be

- A) \$11.
- B) \$66.
- C) \$90.
- D) \$132.

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

27) Refer to Figure 9.1. If this farmer maximizes profits, his TVC will be

- A) \$24.
- B) \$42.
- C) \$108.
- D) \$255.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

- 28) Refer to Figure 9.1. If this farmer maximizes profits, his fixed costs will be
- A) \$0.
  - B) \$24.
  - C) \$45.
  - D) indeterminate unless we know the level of output the firm is producing.

Answer: B

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

- 29) Refer to Figure 9.1. If this farmer maximizes profits, his total revenue will be
- A) \$90.
  - B) \$135.
  - C) \$180.
  - D) \$240.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

- 30) Refer to Figure 9.1. If this farmer maximizes profits, his profits will be
- A) -\$24.
  - B) \$45.
  - C) \$48.
  - D) \$72.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

- 31) Refer to Figure 9.1. If this farmer maximizes profits, his operating profit (or loss) will be
- A) -\$24.
  - B) \$48.
  - C) \$72.
  - D) \$156.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

- 32) Refer to Figure 9.1. This farmer will earn zero operating profit if price will be
- A) \$7.
  - B) \$9.
  - C) \$10.
  - D) \$11.

Answer: A

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic



33) Refer to Figure 9.1. This farmer will earn zero economic profit if price will be

- A) \$7.
- B) \$9.
- C) \$10.
- D) \$11.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

34) Refer to Figure 9.1. This farmer's shutdown point price is

- A) \$0.
- B) \$4.
- C) \$7.
- D) \$10.

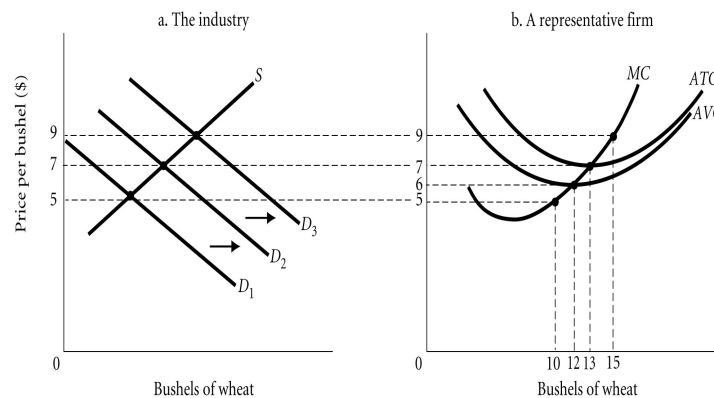
Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

*Refer to the information provided in Figure 9.7 below to answer the questions that follow.*



**Figure 9.7**

35) Refer to Figure 9.7. In which of the following price ranges will the firm continue to operate but at a loss?

- A) \$5-\$6
- B) \$6-\$7
- C) \$7-\$8
- D) \$8-\$9

Answer: B

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

36) Refer to Figure 9.7. The firm's shut down point is at a price of

- A) \$5
- B) \$6
- C) \$7
- D) \$8

Answer: B

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

37) Refer to Figure 9.7. Suppose demand for wheat is initially D2. If consumer incomes increase, then demand for wheat will shift to \_\_\_\_\_. This will \_\_\_\_\_ the equilibrium price of wheat and individual profit maximizing firms will produce \_\_\_\_\_ bushels of wheat.

- A) D3; increase; 15
- B) D1; increase; 10
- C) D3; decrease; 7
- D) D1; decrease; 0

Answer: A

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

38) Refer to Figure 9.7. Suppose demand for wheat is initially D2. If the price of rice (a substitute for wheat) falls, then demand for wheat will shift to \_\_\_\_\_. This will \_\_\_\_\_ the equilibrium price of wheat and individual profit maximizing firms will produce \_\_\_\_\_ bushels of wheat.

- A) D3; increase; 15
- B) D1; increase; 13
- C) D3; decrease; 10
- D) D1; decrease; 0

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

39) Refer to Figure 9.7. If demand for wheat is D2, then a profit maximizing firm will produce \_\_\_\_\_ units and earn a profit of \_\_\_\_\_.

- A) 13; \$0
- B) 7; \$0
- C) 13; \$91
- D) 15; \$30

Answer: B

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

40) Refer to Figure 9.7. If demand for wheat is D3, then a profit maximizing firm will produce \_\_\_\_\_ units and earn \_\_\_\_\_.

- A) 15; positive profits
- B) 9; positive profits
- C) 12; negative profits
- D) 13; exactly a normal return

Answer: A

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

41) Refer to Figure 9.7. If demand for wheat is D3, then in the long run

- A) the firm will shut down.
- B) the firm will exit the industry.
- C) new firms will enter the industry and the current firms will expand production.
- D) None of the above is correct.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

42) Refer to Figure 9.7. If demand for wheat is D1, then a profit maximizing firm will produce \_\_\_\_\_ units and earn \_\_\_\_\_.

- A) 0; negative profits
- B) 5; zero profits
- C) 10; negative profits
- D) 12; positive profits

Answer: A

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

43) Refer to Figure 9.7. If demand for wheat is D1, then in the long run

- A) the firm will increase its price and output.
- B) the firm will exit the industry.
- C) new firms will enter the industry and the current firms will expand production.
- D) firms will increase their output so that their average fixed cost per unit falls.

Answer: B

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

44) Operating profit is

- A)  $TR - TC$ .
- B)  $TR - TFC$ .
- C)  $TR - TVC$ .
- D)  $TVC - TFC$ .

Answer: C

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

45) Economic profit is

- A)  $TR - TC$ .
- B)  $TR - TFC$ .
- C)  $TR - TVC$ .
- D)  $TVC - TFC$ .

Answer: A

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

46) A firm earns an operating profit if

- A) revenues exceed variable costs of production.
- B) revenues equal fixed costs.
- C) price is less than average variable costs of production.
- D) price equals marginal cost.

Answer: A

Diff: 3

Topic: Short-Run Conditions and Long-Run Directions

Skill: Conceptual

47) A firm suffers an operating loss if

- A) price exceeds average variable cost but is less than average total cost.
- B) price exceeds marginal cost.
- C) revenues are smaller than total variable costs of production.
- D) revenues are greater than total variable costs of production but less than total costs.

Answer: C

Diff: 3

Topic: Short-Run Conditions and Long-Run Directions

Skill: Conceptual

48) The Reliable Auto Repair Shop has total revenue of \$7,000. It has total fixed costs of \$700 and total variable costs of \$2,500. The Reliable Auto Repair Shop's operating profit is

- A) -\$1,800.
- B) \$3,800.
- C) \$4,500.
- D) \$6,300.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

49) The Reliable Auto Repair Shop has total revenue of \$5,000. It has total fixed costs of \$700 and total variable costs of \$2,500. The Reliable Auto Repair Shop's operating profit is

- A) -\$3,200.
- B) \$1,800.
- C) \$2,500.
- D) \$4,300.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

50) If a firm's operating profit is \$0, then

- A)  $TR$  equals  $TC$ .
- B)  $TR$  equals  $TVC$ .
- C)  $TR$  equals  $TFC$ .
- D)  $TFC$  is zero.

Answer: B

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

51) If a firm's economic profit is \$0, then

- A)  $TR$  equals  $TC$ .
- B)  $TR$  equals  $TVC$ .
- C)  $TR$  equals  $TFC$ .
- D)  $TFC$  is zero.

Answer: A

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

52) We can call a profit-maximizing strategy a loss-minimizing strategy when a perfectly competitive firm produces where

- A)  $AVC < P < ATC$ .
- B)  $P > ATC$ .
- C)  $P = ATC$ .
- D)  $MR = MC < P$ .

Answer: A

Diff: 3

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

53) A firm will choose to operate rather than shut down as long as

- A) price is greater than or equal to  $AFC$ .
- B)  $AFC$  is greater than  $AVC$ .
- C) price is greater than or equal to  $AVC$ .
- D)  $AVC$  is greater than  $MC$ .

Answer: C

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

54) Economic profit is

- A)  $(P - ATC)q$ .
- B)  $(P + ATC)q$ .
- C)  $P(q - ATC)$ .
- D)  $Pq/ATC$ .

Answer: A

Diff: 3

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

55) A firm suffering economic losses decides whether or not to produce in the short run on the basis of whether

- A) revenues cover variable costs.
- B) revenues from operating are sufficient to cover fixed costs.
- C) revenues from operating are sufficient to cover fixed plus variable costs.
- D) Firms suffering economic losses will always shut down.

Answer: A

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

- 56) The Pampered Pet Shop operates in a perfectly competitive industry and hires you as an economic consultant. The firm is currently producing at a point where market price equals its marginal cost. Its total revenue exceeds its total variable cost, but is less than its total cost. You advise the firm to
- A) cease production immediately because it is incurring a loss.
  - B) lower its price so that it can sell more units of output.
  - C) produce in the short run to minimize its loss, but exit the industry in the long run.
  - D) raise its price until it breaks even.

Answer: C

Diff: 3

Topic: Short-Run Conditions and Long-Run Directions

Skill: Conceptual

- 57) The Pampered Pet Shop operates in a perfectly competitive industry and hires you as an economic consultant. The firm is currently producing at a point where market price equals its marginal cost. Its market price is less than its average variable cost. You advise the firm to
- A) cease production immediately because it is not covering its operating costs.
  - B) lower its price so that it can sell more units of output.
  - C) produce in the short run to minimize its loss, but exit the industry in the long run.
  - D) raise its price until it breaks even.

Answer: A

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Conceptual

- 58) A firm will shut down in the short run if
- A) it is suffering a loss.
  - B) fixed costs exceed revenues.
  - C) variable costs exceed revenues.
  - D) total costs exceed revenues.

Answer: C

Diff: 3

Topic: Short-Run Conditions and Long-Run Directions

Skill: Conceptual

- 59) A perfectly competitive firm's shutdown point is the lowest point on its \_\_\_\_\_ curve.
- A) *ATC*
  - B) *TC*
  - C) *AVC*
  - D) *MC*

Answer: C

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

60) A firm earning positive short-run profits has an incentive to \_\_\_\_\_ its long-run scale of operation.

- A) expand
- B) contract
- C) not change
- D) encourage another firm to expand

Answer: A

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Conceptual

61) If revenues exceed \_\_\_\_\_, operating profit is \_\_\_\_\_.

- A) total cost; negative
- B) fixed cost; positive
- C) variable cost; negative
- D) variable cost; positive

Answer: D

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

62) If revenues exceed \_\_\_\_\_, economic profit is \_\_\_\_\_.

- A) total cost; negative
- B) fixed cost; positive
- C) variable cost; negative
- D) variable cost; positive

Answer: B

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

63) If a firm shuts down in the short run, then

- A) its economic profits are zero.
- B) its losses are equal to its fixed cost.
- C) its operating profits are negative.
- D) its total costs are zero.

Answer: B

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Conceptual



64) A firm that shuts down when \_\_\_\_\_ are less than \_\_\_\_\_ minimizes its losses.

- A) variable costs; fixed costs
- B) fixed costs; variable costs
- C) revenues; variable costs
- D) operating profits; sunk costs

Answer: C

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

65) A firm is better off operating than shutting down when price adequately covers

- A) marginal cost.
- B) average fixed cost.
- C) average variable cost.
- D) marginal revenue.

Answer: C

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

66) The Taste Freeze Ice Cream Company is a perfectly competitive firm producing where  $MR = MC$ . The current market price of an ice cream sandwich is \$5.00. The firm sells 200 ice cream sandwiches. Its  $AVC$  is \$8.00 and its  $AFC$  is \$3.00. What should Taste Freeze do?

- A) Continue to produce because price exceeds  $AFC$ .
- B) Shut down and produce zero sandwiches because price is less than  $AVC$ .
- C) Decrease production so that  $AVC$  will decrease.
- D) Increase production so that  $AFC$  will decrease.

Answer: B

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

67) The Taste Freeze Ice Cream Company is a perfectly competitive firm producing where  $MR = MC$ . The current market price of an ice cream sandwich is \$5.00. The firm sells 200 ice cream sandwiches. Its  $AVC$  is \$3.00 and its  $AFC$  is \$3.00. What should Taste Freeze do?

- A) Continue to produce because price exceeds  $AVC$ .
- B) Shut down and produce zero sandwiches because price is less than  $ATC$ .
- C) Decrease production so that  $AVC$  will decrease.
- D) Increase production so that  $AFC$  will decrease.

Answer: A

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

- 68) The Speedy Typesetting Company, a perfectly competitive firm, is currently producing where  $P = MC$  and is earning a normal profit. The yearly licensing fee that this firm must pay for the use of a statistical software program was just increased from \$1,000 to \$1,200. In the short run, this firm will most likely
- A) reduce the amount of output it produces because its cost curves have shifted up and to the left.
  - B) continue to produce the same amount of output because only its fixed costs have increased.
  - C) produce more units of output to increase revenue to cover the additional fixed costs.
  - D) shut down because it will no longer be earning a normal profit.

Answer: B

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

- 69) The Speedy Typesetting Company, a perfectly competitive firm, is currently producing where  $P = MC$  and is earning a normal profit. The firm mainly employs minimum wage workers and the government just increased the minimum wage from \$5.85 to \$6.55 per hour. In the short run, this firm will most likely
- A) reduce the amount of output it produces because its cost curves have shifted up and to the left.
  - B) continue to produce the same amount of output because only its fixed costs have increased.
  - C) produce more units of output to increase revenue to cover the additional fixed costs.
  - D) shut down because it will no longer be earning a normal profit.

Answer: A

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

*Refer to the information provided below in Scenario 9.5 to answer the following questions.*

SCENARIO 9.5: Investors put up \$1,040,000 to construct a building and purchase all equipment for a new restaurant. The investors expect to earn a minimum return of 10 per cent on their investment. The restaurant is open 52 weeks per year and serves 900 meals per week. The fixed costs are spread over the 52 weeks (i.e. prorated weekly). Included in the fixed costs is the 10% return to the investors and \$2,000 in other fixed costs. Variable costs include \$2,000 in weekly wages, and \$600 per week in materials, electricity, etc. The restaurant charges \$6 on average per meal.

- 70) Refer to Scenario 9.5. Weekly total revenue is
- A) \$1,600.
  - B) \$2,000.
  - C) \$3,600.
  - D) \$5,400.

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

71) Refer to Scenario 9.5. The restaurant's economic profit is

- A) positive.
- B) negative.
- C) zero.
- D) break even.

Answer: B

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

72) Refer to Scenario 9.5. The economic profit is

- A) -\$3,600.
- B) -\$1,200.
- C) \$0.
- D) \$5,400.

Answer: B

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

73) Refer to Scenario 9.5. In the long run, the restaurant will want to

- A) operate and expand.
- B) operate but not expand.
- C) shut down but don't go out of business.
- D) go out of business.

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

74) Refer to Scenario 9.5. In the short run, if the restaurant shuts down, it will \_\_\_\_\_ variable costs and \_\_\_\_\_ revenue.

- A) have; receive
- B) have; receive no
- C) have no; receive
- D) have no; receive no

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

75) Refer to Scenario 9.5. In the short run, if the restaurant shuts down, its losses will equal its \_\_\_\_\_ costs of \_\_\_\_\_.

- A) variable; \$2,600
- B) total; \$6,600
- C) fixed; \$4,000
- D) fixed; \$2,000

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

76) Refer to Scenario 9.5. In the short run, if the restaurant decides to stay open, it will make weekly operating profits of

- A) -\$2,800.
- B) \$0.
- C) \$2,800.
- D) \$5,400.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

*Refer to the data provided in Table 9.1 below to answer the following questions.*

**Table 9.1**

q	TFC	TVC	TC	MC	AVC	ATC
0	\$50	\$0	\$50	--	--	--
1	50	20	70	20	20	70
2	50	30	80	10	15	40
3	50	45	95	15	15	31.67
4	50	62	112	17	15.50	28
5	50	90	140	28	18	28
6	50	132	182	42	22	30.33
7	50	186	236	54	26.57	33.71

77) Refer to Table 9.1. If the market price is \$10, then this firm will maximize profits by producing \_\_\_\_\_ units of output.

- A) zero
- B) one
- C) two
- D) three

Answer: A

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

78) Refer to Table 9.1. If the market price is \$42, then this firm will maximize profits by producing \_\_\_\_\_ units of output and its profits will be \_\_\_\_\_ .

- A) five; \$70
- B) six; \$70
- C) six; \$120
- D) seven; \$58

Answer: B

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

79) Refer to Table 9.1. If the market price is \$42, then in the long run the firm will

- A) operate and expand.
- B) operate but not expand.
- C) shut down, but not go out of business.
- D) go out of business.

Answer: A

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

80) Refer to Table 9.1. If the market price is \$17, then in the long run the firm will

- A) operate and expand.
- B) operate but not expand.
- C) shut down, but not go out of business.
- D) go out of business.

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

81) Refer to Table 9.1. If the market price is \$17, then in the short run the firm will

- A) operate and expand.
- B) operate but not expand.
- C) shut down, but not go out of business.
- D) go out of business.

Answer: B

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

82) Refer to Table 9.1. If the market price is \$15, then this firm will maximize profits by producing \_\_\_\_\_ units of output.

- A) three
- B) four
- C) five
- D) six

Answer: A

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

83) Refer to Table 9.1. The shutdown point price for this firm is

- A) \$0.
- B) \$10.
- C) \$15.
- D) \$28.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

84) Refer to Table 9.1. The lowest output this firm would produce before shutting down is \_\_\_\_\_ units.

- A) 1
- B) 2
- C) 3
- D) 4

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

85) Refer to Table 9.1. In the long run, if cost conditions do not change, this firm will earn a zero economic profit if price is

- A) \$10.
- B) \$15.
- C) \$20.
- D) \$28.

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

86) A firm stands to gain by operating instead of shutting down as long as \_\_\_\_\_ sufficiently covers \_\_\_\_\_.

- A) price; average variable cost
- B) price; average fixed cost
- C) total revenue; total fixed costs
- D) operating profit; economic profit

Answer: A

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

87) The rising part of a perfectly competitive firm's marginal cost curve that is equal to or above points on its average variable cost curve is the firm's

- A) normal profit curve.
- B) operating profit curve.
- C) short-run supply curve.
- D) long-run supply curve.

Answer: C

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

88) If  $TR > TC$ , a firm would \_\_\_\_\_ in the short run and \_\_\_\_\_ in the long run.

- A) operate; expand
- B) operate; contract
- C) shut down; expand
- D) shut down; contract

Answer: A

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

89) If  $TR < TC$ , a firm would \_\_\_\_\_ in the short run and \_\_\_\_\_ in the long run.

- A) indeterminate; contract
- B) operate; contract
- C) shut down; expand
- D) shut down; contract

Answer: A

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

90) If  $TR > TVC$  but  $TR < TC$ , a firm would \_\_\_\_\_ in the short run and \_\_\_\_\_ in the long run.

- A) operate; expand
- B) operate; exit the industry
- C) shut down; expand
- D) shutdown; exit the industry

Answer: B

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

91) If  $TR < TVC$ , a firm would \_\_\_\_\_ in the short run and \_\_\_\_\_ in the long run.

- A) operate; expand
- B) operate; exit the industry
- C) not operate; expand
- D) shut down; exit the industry

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

92) If a perfectly competitive firm operates in the short run and expands in the long run, then the firm's short run condition is

- A)  $TR > TC$ .
- B)  $TR > TVC$  and  $TR < TC$ .
- C)  $TR < TVC$ .
- D)  $TR < TFC$ .

Answer: A

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

93) If a perfectly competitive firm operates in the short run but exits the industry in the long run, then the firm's short-run condition is

- A)  $TR > TC$ .
- B)  $TR > TVC$  and  $TR < TC$ .
- C)  $TR < TVC$ .
- D)  $TR < TFC$ .

Answer: B

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic



- 94) If a perfectly competitive firm shuts down in the short run and exits the industry in the long run, the firm's short-run condition is
- A)  $TR > TC$ .
  - B)  $TR > TVC$  and  $TR < TC$ .
  - C)  $TR < TVC$ .
  - D)  $TR < TFC$ .

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

*Refer to the data provided in Table 9.2 below to answer the questions that follow.*

**Table 9.2**

q	TFC	TVC	TC	MC	AVC	ATC
0	\$50	\$0	\$50	--	--	--
1	50	20	70	20	20	70
2	50	30	80	10	15	40
3	50	45	95	15	15	31.67
4	50	62	112	17	15.50	28
5	50	90	140	28	18	28
6	50	132	182	42	22	30.33
7	50	186	236	54	26.57	33.71

- 95) Refer to Table 9.2. If the market price is \$17 and the firm produces 4 units of output, then its profit would be
- A) -\$50.
  - B) -\$44.
  - C) \$0.
  - D) \$18.

Answer: B

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

- 96) Refer to Table 9.2. If the market price is \$28 and the firm produces 5 units of output, then its profit would be
- A) -\$50.
  - B) -\$44.
  - C) \$0.
  - D) \$18.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

- 97) Refer to Table 9.2. The market price is \$42 and this firm is producing four units of output. Which of the following would you recommend to this firm?
- A) Continue producing four units of output, because the firm is able to make an economic profit.
  - B) Increase output to six units, so that marginal cost equals marginal revenue.
  - C) Reduce price to \$17, so that marginal cost will equal marginal revenue at 4 units of output.
  - D) Increase output to seven units so that price is less than marginal cost.

Answer: B

Diff: 3

Topic: Short-Run Conditions and Long-Run Directions

Skill: Conceptual

- 98) Refer to Table 9.2. At a market price of \$28, the best this firm can do is to produce \_\_\_\_\_ units of output and earn an economic profit of \_\_\_\_\_.
- A) 0; -\$50
  - B) 4; \$0
  - C) 5; \$0
  - D) either 4 or 5; \$0

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

- 99) Refer to Table 9.2. If the market price is \$20, then to maximize profits this firm should produce
- A) zero units of output.
  - B) one unit of output.
  - C) two units of output.
  - D) an output level of about four.

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

- 100) The short-run supply curve of a perfectly competitive firm is the portion of
- A) the average variable cost curve that lies above its marginal cost curve.
  - B) its marginal cost curve that lies above its average variable cost curve.
  - C) its marginal cost curve that lies above its average total cost curve.
  - D) its average total cost curve that lies above its marginal cost curve.

Answer: B

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Definition

Refer to the information provided in Figure 9.2 below to answer the questions that follow.

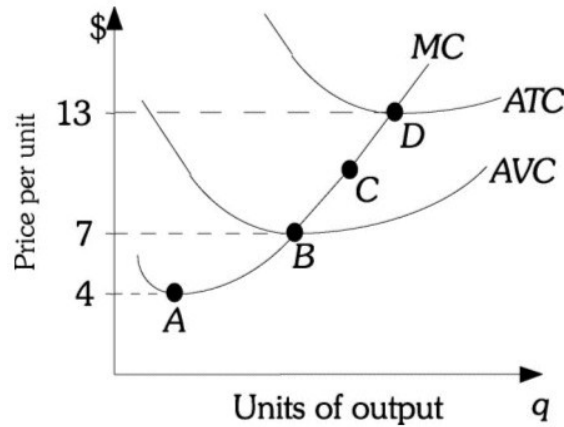


Figure 9.2

101) Refer to Figure 9.2. This firm's shutdown point corresponds to point

- A) A.
- B) B.
- C) C.
- D) D.

Answer: B

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

102) Refer to Figure 9.2. This firm's short-run supply curve is the firm's

- A) AVC curve to the right of point B.
- B) marginal cost curve above point A.
- C) marginal cost curve above point B.
- D) marginal cost curve above point D.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

103) Refer to Figure 9.2. This firm will earn an operating profit, but incur an economic loss if price is

- A) between \$0 and \$4.
- B) between \$4 and \$7.
- C) between \$7 and \$13.
- D) above \$13.

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

104) Refer to Figure 9.2. This firm will earn a zero economic profit if price is

- A) \$0.
- B) \$4.
- C) \$7.
- D) \$13.

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

105) The best explanation for the shape of a short-run marginal cost schedule is

- A) increasing returns to scale.
- B) decreasing returns to scale.
- C) the lack of a fixed factor of production.
- D) a fixed factor causes diminishing returns to other factors.

Answer: D

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

106) A perfectly competitive firm will be operating at its shutdown point if it operates at the minimum point on its \_\_\_\_\_ cost curve.

- A) total
- B) average variable
- C) average total
- D) marginal

Answer: B

Diff: 3

Topic: Short-Run Conditions and Long-Run Directions

Skill: Conceptual

107) The short-run industry supply curve for a perfectly competitive industry is the

- A) horizontal sum of the individual firms' marginal cost curves above *AVC*.
- B) vertical sum of the individual firms' marginal cost curves above *AVC*.
- C) horizontal sum of the individual firms' marginal cost curves above *ATC*.
- D) vertical sum of the individual firms' marginal cost curves above *ATC*.

Answer: A

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Definition

108) A(n) \_\_\_\_\_ will shift the short-run industry supply curve of a perfectly competitive industry.

- A) increase in the price of an input
- B) increase in the income of consumers
- C) increase in the price of the product
- D) increase in the demand for the product

Answer: A

Diff: 3

Topic: Short-Run Conditions and Long-Run Directions

Skill: Conceptual

109) If the price of an input decreases, each individual firm's marginal cost curve shifts \_\_\_\_\_ and the industry supply curve \_\_\_\_\_.

- A) downward; shifts to the left
- B) downward; shifts to the right
- C) upward; does not change
- D) upward; shifts to the left

Answer: B

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

110) If the price of an input increases, each individual firm's marginal cost curve shifts \_\_\_\_\_ and the industry supply curve \_\_\_\_\_.

- A) downward; shifts to the left
- B) downward; shifts to the right
- C) upward; does not change
- D) upward; shifts to the left

Answer: D

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

Refer to the information provided in Figure 9.3 below to answer the question that follows.

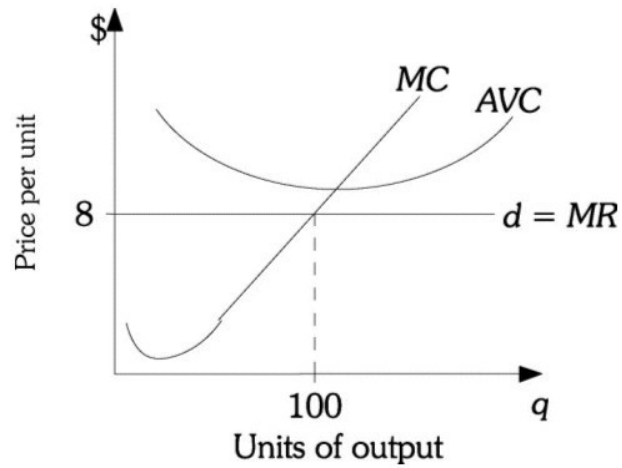


Figure 9.3

111) Refer to Figure 9.3. In the short run if economic conditions do not change this firm should \_\_\_\_\_ and in the long run it should \_\_\_\_\_.

- A) shut down; exit the industry
- B) exit the industry; shut down
- C) continue to produce where  $MC = MR$ ; expand production
- D) continue to produce where  $MC = MR$ ; shut down

Answer: A

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

Refer to the information provided in Figure 9.4 below to answer the question that follows.

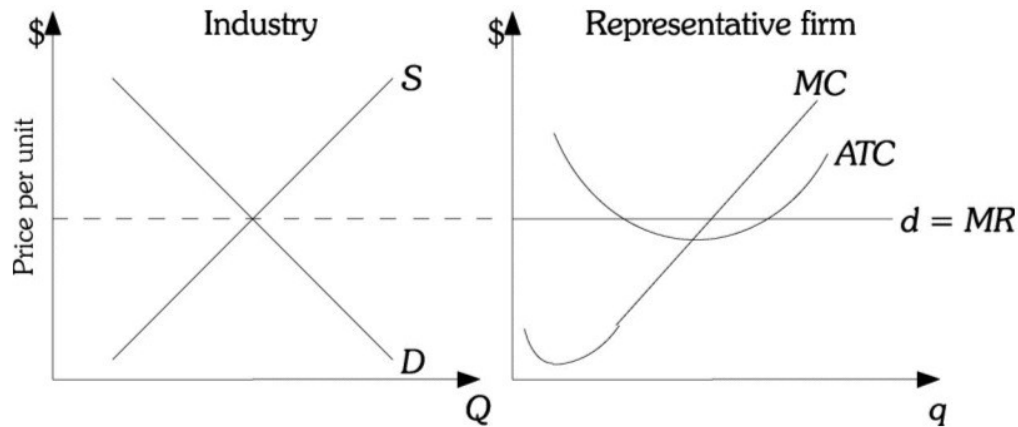


Figure 9.4

- 112) Refer to Figure 9.4. As long as incumbent firms in this perfectly competitive industry make \_\_\_\_\_ economic profits, new firms will \_\_\_\_\_ it and existing firms will \_\_\_\_\_ it.

A) zero; not enter; leave  
 B) positive; not enter; not leave  
 C) positive; enter; not leave  
 D) zero; enter; leave

Answer: C

Diff: 2

Topic: Short-Run Conditions and Long-Run Directions

Skill: Analytic

- 113) If a firm is incurring an operating loss, in the short run the firm should \_\_\_\_\_ and in the long run it should \_\_\_\_\_.

A) produce where  $MC = MR$ ; exit the industry  
 B) shut down; exit the industry  
 C) produce where  $MC = MR$ ; expand  
 D) shut down; expand

Answer: B

Diff: 3

Topic: Short-Run Conditions and Long-Run Directions

Skill: Conceptual

114) A perfectly competitive firm, Billy Bob's Fertilizer Engineers, is incurring a loss while still earning an operating profit. In the short run it should \_\_\_\_\_ and in the long run, if there is no change in economic conditions, it should \_\_\_\_\_.

- A) shut down; exit the industry
- B) shut down; expand
- C) produce where  $MR = MC$ ; exit the industry
- D) produce where  $MR = MC$ ; expand

Answer: C

Diff: 3

Topic: Short-Run Conditions and Long-Run Directions

Skill: Conceptual

115) A perfectly competitive firm is earning an economic profit. In the short run it should \_\_\_\_\_. In the long run it should \_\_\_\_\_.

- A) shut down; expand
- B) produce where  $MC = MR$ ; leave the industry
- C) produce where  $MC = MR$ ; expand production
- D) shut down; exit the industry

Answer: C

Diff: 3

Topic: Short-Run Conditions and Long-Run Directions

Skill: Conceptual

116) The owner of Tie-Dyed T-shirts, a perfectly competitive firm, hires you to give him economic advice. He tells you that the market price for his shirts is \$15 and that he is currently producing 200 shirts at an  $AVC$  of \$10 and an  $ATC$  of \$20. What would you recommend that he do?

- A) Continue producing in the short run, as his loss from production is less than his fixed costs, but exit the industry in the long run if there are no changes in economic conditions.
- B) Shut down in the short run, as he is incurring a loss, and leave the industry in the long run, if there are no changes in economic conditions.
- C) Continue to produce in the short run, even though he is earning a loss, and expand production in the future hoping to increase market share and total revenue.
- D) Tell him that you cannot make any recommendations until you know what his fixed costs are.

Answer: A

Diff: 3

Topic: Short-Run Conditions and Long-Run Directions

Skill: Conceptual



117) The owner of Tie-Dyed T-shirts, a perfectly competitive firm, hires you to give him economic advice. He tells you that the market price for his shirts is \$15 and that he is currently producing 200 shirts at an *AVC* of \$10 and an *ATC* of \$20. You tell him he should continue to operate in the short run because

- A) he is earning an economic profit of \$4,000.
- B) his loss from operating in only \$2,000 which is less than his loss if he shuts down.
- C) he has to pay this fixed costs of \$2,000 if he shuts down which is greater than his loss when he operates.
- D) In fact you do not tell him to operate -- he should shut down since he has a loss.

Answer: C

Diff: 3

Topic: Short-Run Conditions and Long-Run Directions

Skill: Conceptual

118) \_\_\_\_\_ is a short run phenomenon.

- A) Economies of scale
- B) Constant returns to scale
- C) Diseconomies of scale
- D) Diminishing marginal returns

Answer: D

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Definition

## 2 True/False

1) Input prices fall as entry occurs in an increasing-cost industry.

Answer: FALSE

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

2) Input prices fall as entry occurs in a decreasing-cost industry.

Answer: TRUE

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

3) Entry of new firms in an increasing-cost industry leads to an upward shift of the *LRAC* curve.

Answer: TRUE

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

4) Entry of new firms in a decreasing-cost industry leads to an upward shift of the *LRAC* curve.

Answer: FALSE

Diff: 1

Topic: Short-Run Conditions and Long-Run Directions

Skill: Fact

- 5) Information on marginal cost of production is all that is necessary to obtain the long run industry supply curve, because  $P=MC$  is the profit-maximizing condition for all firms.  
Answer: FALSE  
Diff: 2  
Topic: Short-Run Conditions and Long-Run Directions  
Skill: Definition
- 6) The long run industry supply curve is made up of the zero-profit equilibrium levels of output as the industry expands due to entry.  
Answer: TRUE  
Diff: 1  
Topic: Short-Run Conditions and Long-Run Directions  
Skill: Fact
- 7) A firm suffering short-run losses will continue to operate rather than shut down when price sufficiently covers its average variable costs.  
Answer: TRUE  
Diff: 1  
Topic: Short-Run Conditions and Long-Run Directions  
Skill: Fact
- 8) Firms suffering losses in the short run should always continue to operate since they must pay their fixed costs.  
Answer: FALSE  
Diff: 1  
Topic: Short-Run Conditions and Long-Run Directions  
Skill: Conceptual
- 9) A firm's optimal short-run output is zero at all prices below its shutdown point.  
Answer: TRUE  
Diff: 1  
Topic: Short-Run Conditions and Long-Run Directions  
Skill: Fact
- 10) The horizontal sum of marginal cost curves (above  $AVC$ ) of all the firms in an industry is the short-run industry supply curve.  
Answer: TRUE  
Diff: 2  
Topic: Short-Run Conditions and Long-Run Directions  
Skill: Definition
- 11) A firm's marginal cost curve above its  $AVC$  is also its short-run supply curve.  
Answer: TRUE  
Diff: 1  
Topic: Short-Run Conditions and Long-Run Directions  
Skill: Fact

## 9.2 Long-Run Cost Economies and Diseconomies of Scale

### 1 Multiple Choice

- 1) In the short- run average costs eventually increase because of \_\_\_\_\_, and in the long run average costs eventually increase because of \_\_\_\_\_.
- A) diminishing returns; diseconomies of scale
  - B) diseconomies of scale; diminishing returns
  - C) constant returns to scale; decreasing returns to scale
  - D) increasing returns to scale; diseconomies of scale

Answer: A

Diff: 3

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Conceptual

- 2) Engineers for the Off Road Skateboard Company determine that a 12% increase in all inputs will cause output to increase by 6%. Assuming that input prices remain constant, you correctly deduce that such a change in inputs will cause \_\_\_\_\_ as output increases.
- A) total costs to decrease
  - B) average costs to increase
  - C) average costs to decrease
  - D) average fixed costs to increase

Answer: B

Diff: 3

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Conceptual

- 3) Engineers for The All-Terrain Bike Company determine that a 10% increase in all inputs will cause a 10% increase in output. Assuming that input prices remain constant, you correctly deduce that such a change in inputs will cause \_\_\_\_\_ as output increases.
- A) average costs to increase
  - B) average costs to decrease
  - C) average costs to remain constant
  - D) marginal costs to increase

Answer: C

Diff: 3

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Conceptual

- 4) Engineers for The Giffen Record Company determine that a 30% increase in all compact disc inputs will cause a 40% increase in output. Assuming that input prices remain constant, you correctly deduce that such a change in inputs will cause \_\_\_\_\_ as output increases.
- A) average costs to increase
  - B) average costs to decrease
  - C) average costs to remain constant
  - D) marginal costs to increase

Answer: B

Diff: 3

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Conceptual

- 5) The shape of a firm's \_\_\_\_\_ average cost curve depends on how costs vary with \_\_\_\_\_.  
A) short-run; scale of operations  
B) short-run; no fixed factor of production  
C) long-run; scale of operations  
D) long-run; a fixed factor of production

Answer: C

Diff: 2

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Analytic

- 6) A(n) \_\_\_\_\_ in a firm's scale of production leads to \_\_\_\_\_ average total cost when there are economies of scale.  
A) increase; lower  
B) increase; higher  
C) decrease; lower  
D) decrease; no change in

Answer: A

Diff: 2

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Analytic

- 7) When increased scale of production leads to higher average costs, an industry exhibits  
A) diminishing returns.  
B) increasing returns to scale.  
C) decreasing returns to scale.  
D) constant returns to scale.

Answer: C

Diff: 2

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Definition

- 8) When decreased scale of production leads to higher average costs, an industry exhibits  
A) diminishing returns.  
B) increasing returns to scale.  
C) decreasing returns to scale.  
D) constant returns to scale.

Answer: B

Diff: 2

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Definition

9) Which of the following is an example of economies of scale?

- A) As the computer industry expands, the number of professionally trained computer programmers also increases, which causes the salaries of computer programmers to increase.
- B) A state government trying to attract firms to locate in the state reduces the tax rate on profits that businesses must pay, thus lowering costs to firms locating in the state.
- C) A firm lowers its health insurance costs as it increases in size because as the size of the group insured increases, the premium per person decreases substantially.
- D) As the demand for calculators increases, the price of calculators actually falls.

Answer: C

Diff: 2

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Definition

10) Which of the following is an example of diseconomies of scale?

- A) As the computer industry expands, the demand for professionally trained computer programmers also increases, which causes the salaries of computer programmers to increase.
- B) As a firm hires additional workers, each worker adds less to total output than the worker hired just before him.
- C) A firm lowers its health insurance costs as it increases in size because as the size of the group insured increases, the premium per person decreases substantially.
- D) As the demand for calculators decreases, the price of calculators actually rose.

Answer: C

Diff: 2

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Definition

11) A firm is experiencing \_\_\_\_\_ on the downward sloping portion of a firm's long run average cost curve.

- A) increasing returns to scale
- B) constant returns to scale
- C) decreasing returns to scale
- D) diminishing marginal returns

Answer: A

Diff: 2

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Definition

12) A firm is experiencing \_\_\_\_\_ on the upward sloping portion of a firm's long run average cost curve.

- A) increasing returns to scale
- B) constant returns to scale
- C) decreasing returns to scale
- D) diminishing marginal returns

Answer: C

Diff: 2

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Definition

- 13) The Supply Room, a mail-order school supply store, is growing rapidly. As a result of achieving larger size, the firm realizes (1) volume discounts when buying from its suppliers, and (2) lower transportation costs by bulk shipping. The best explanation for these events is that the Supply Room is experiencing \_\_\_\_\_ returns to scale.

- A) increasing
- B) constant
- C) decreasing
- D) first decreasing and then increasing

Answer: A

Diff: 3

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Conceptual

- 14) Every point on a U-shaped long-run average cost curve represents

- A) the minimum cost at which the associated output level can be produced when the scale of plant can be changed.
- B) the minimum point of the associated short-run average cost curve.
- C) the minimum cost at which the associated output level can be produced when the scale of plant cannot be changed.
- D) both A and B

Answer: A

Diff: 2

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Definition

- 15) Suppose Heidi's Ice Cream experiences economies of scale up to a certain point and diseconomies of scale beyond that point. Its long-run average cost curve is most likely to be

- A) upward sloping to the right.
- B) downward sloping to the right.
- C) horizontal.
- D) U-shaped.

Answer: D

Diff: 3

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Conceptual

- 16) Internal economies of scale occur at the \_\_\_\_\_ level(s).

- A) plant and firm
- B) plant and industry
- C) firm and industry
- D) plant, firm, and industry

Answer: A

Diff: 1

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Definition

17) A(n) \_\_\_\_\_ in a firm's scale of production leads to \_\_\_\_\_ average total cost as long as there are constant returns to scale.

- A) increase; lower
- B) increase; higher
- C) decrease; a change in
- D) decrease; no change in

Answer: D

Diff: 2

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Analytic

18) The smallest plant size at which a firm's long run average cost curve is at its minimum is called the \_\_\_\_\_.

- A) envelope
- B) profit maximizing scale of production
- C) minimum efficiency scale
- D) shut down point

Answer: A

Diff: 1

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Definition

19) A firm's long-run average cost curve is declining as output increases over all levels of output. As a result,

- A) small firms and large firms will have identical average costs.
- B) there should be a large number of firms in the industry.
- C) small firms would have lower average costs of production than large firms.
- D) there should be only one firm in the industry.

Answer: D

Diff: 3

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Conceptual

Refer to the information provided in Figure 9.5 below to answer the questions that follow.

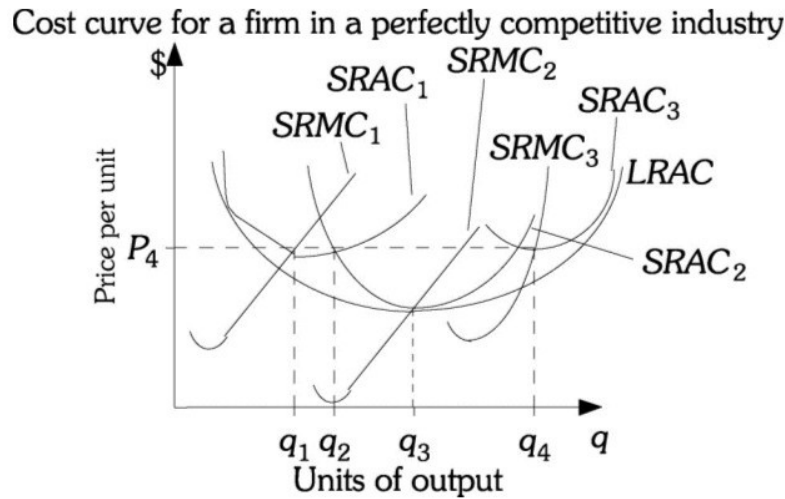


Figure 9.5

20) Refer to Figure 9.5. Economies of scale exist up to \_\_\_\_\_ units of output for this firm.

- A)  $q_1$
- B)  $q_2$
- C)  $q_3$
- D)  $q_4$

Answer: C

Diff: 2

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Analytic

21) Refer to Figure 9.5. Assume this firm is in a constant-cost industry. For this firm to be in long-run equilibrium, the firm must be producing

- A)  $q_1$  units of output.
- B)  $q_2$  units of output.
- C)  $q_3$  units of output.
- D) an amount that is indeterminate from this information.

Answer: C

Diff: 2

Topic: Long-Run Costs: Economies and Diseconomies of Scale

Skill: Analytic



- 22) Related to the *Economics in Practice* on page 187: Florida Blood Services and the Northwest Florida Blood Center merged
- A) in an attempt to gain market power.
  - B) to take advantage of economies of scale in blood testing and complying with government regulations.
  - C) to drive all other blood banks in the area out of the market.
  - D) to avoid diminishing marginal returns.
- Answer: B  
Diff: 1  
Topic: Long-Run Costs: Economies and Diseconomies: Economics in Practice  
Skill: Fact

## 2 True/False

- 1) When an increase of a firm's scale of production leads to higher average costs per unit produced, there is an increasing return to scale.  
Answer: FALSE  
Diff: 2  
Topic: Long-Run Costs: Economies and Diseconomies of Scale  
Skill: Definition
- 2) Economies of scale cannot be due only to the sheer size of a firm's operation.  
Answer: FALSE  
Diff: 1  
Topic: Long-Run Costs: Economies and Diseconomies of Scale  
Skill: Fact
- 3) Across different output levels, a firm can experience both economies and diseconomies of scale.  
Answer: TRUE  
Diff: 1  
Topic: Long-Run Costs: Economies and Diseconomies of Scale  
Skill: Definition
- 4) A firm's long run average cost curve represents the minimum cost of producing each level of output when the scale of production can be adjusted.  
Answer: TRUE  
Diff: 1  
Topic: Long-Run Costs: Economies and Diseconomies of Scale  
Skill: Definition
- 5) A firm that has increasing returns to scale in the long run does not experience diminishing marginal returns in the short run.  
Answer: FALSE  
Diff: 2  
Topic: Long-Run Costs: Economies and Diseconomies of Scale  
Skill: Definition

## 9.3 Long-Run Adjustments to Short-Run Conditions

### 1 Multiple Choice

- 1) Industries in which firms suffer losses are likely to \_\_\_\_\_ in the long-run.
- A) expand
  - B) contract
  - C) neither expand nor contract, as firms must earn an economic profit to stay in business
  - D) expand or contract depending on the normal rate of return

Answer: B

Diff: 3

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Conceptual

- 2) Industries in which firms enjoy positive profits are likely to \_\_\_\_\_ in the long-run.
- A) expand
  - B) contract
  - C) neither expand nor contract, as firms must earn an economic profit to stay in business
  - D) expand or contract depending on the normal rate of return

Answer: A

Diff: 3

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Conceptual

- 3) For a perfectly competitive industry, an improvement in technology will cause
- A) a movement up the short-run industry supply curve.
  - B) a movement down the short-run industry supply curve.
  - C) the industry short-run supply curve to shift to the right.
  - D) the industry short-run supply curve to shift to the left.

Answer: C

Diff: 3

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Fact

- 4) Which of the following is the set of conditions necessary for long-run equilibrium for a perfectly competitive firm?
- A)  $P = SRMC < SRAC = LRAC$
  - B)  $P > SRMC = SRAC = LRAC$
  - C)  $P = SRMC = SRAC > LRAC$
  - D)  $P = SRMC = SRAC = LRAC$

Answer: D

Diff: 3

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Conceptual

- 5) Assume the peanut industry is perfectly competitive and in long-run equilibrium with a market price of \$5. If the demand for peanuts increases in this decreasing-cost industry, long-run equilibrium will be reestablished at a price
- A) greater than \$5.
  - B) less than \$5.
  - C) equal to \$5.
  - D) either greater than or less than \$5, depending on the number of firms that enter the industry.

Answer: B

Diff: 3

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Conceptual

- 6) Assume a perfectly competitive industry is in long-run equilibrium at a price of \$20. If this industry is a constant-cost industry and the demand for the product decreases, long-run equilibrium will be reestablished at a price
- A) greater than \$20.
  - B) less than \$20.
  - C) of \$20.
  - D) either greater than or less than \$20 depending on the magnitude of the decrease in demand.

Answer: C

Diff: 2

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Analytic

- 7) Assume a perfectly competitive industry is in long-run equilibrium at a price of \$30. If this industry is an increasing-cost industry and the demand for the product increases, long-run equilibrium will be reestablished at a price
- A) greater than \$30.
  - B) of \$30.
  - C) less than \$30.
  - D) either greater than or less than \$30 depending on the magnitude of the decrease in demand.

Answer: A

Diff: 2

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Analytic

Refer to the information provided in Figure 9.6 below to answer the questions that follow.

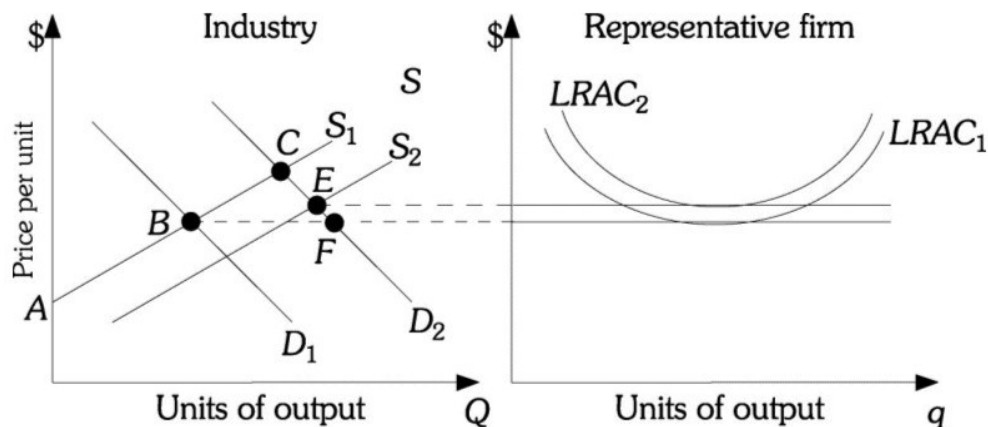


Figure 9.6

- 8) Refer to Figure 9.6. Industry demand is initially  $D_1$  and industry supply is initially  $S_1$  in this increasing cost industry. If demand increases to  $D_2$ , then in the long run the industry will
- A) stay at point  $B$ .
  - B) move to point  $C$ .
  - C) move to point  $E$ .
  - D) move to point  $F$ .

Answer: C

Diff: 2

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Analytic

- 9) Refer to Figure 9.6. This increasing cost industry's long-run supply curve would be found by drawing a line from
- A) points  $A$  to  $E$ .
  - B) points  $B$  to  $F$ .
  - C) points  $B$  to  $C$ .
  - D) points  $B$  to  $E$ .

Answer: D

Diff: 2

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Analytic

- 10) Refer to Figure 9.6. This figure depicts a(n) \_\_\_\_\_ type of industry.
- A) increasing-cost
  - B) decreasing-cost
  - C) constant-cost
  - D) impossible to determine from this information

Answer: A

Diff: 3

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Conceptual

- 11) An industry is in \_\_\_\_\_ if firms have an incentive to enter or exit in the \_\_\_\_\_ run.
- A) disequilibrium; short
  - B) disequilibrium; long
  - C) equilibrium; short
  - D) equilibrium; long

Answer: B

Diff: 2

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Analytic

- 12) In the long run firms will expand as long as there are more \_\_\_\_\_ and new firms will enter the industry as long as they earn \_\_\_\_\_.
- A) economies of scale; zero profits
  - B) economies of scale; positive economic profits
  - C) diseconomies of scale; zero profits
  - D) diseconomies of scale; positive economic profits

Answer: B

Diff: 1

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Fact

- 13) In long run equilibrium for a perfectly competitive industry, firms earn \_\_\_\_\_ economic profits and produce \_\_\_\_\_.
- A) zero; efficiently
  - B) zero; inefficiently
  - C) positive; efficiently
  - D) positive; inefficiently

Answer: A

Diff: 2

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Fact

- 14) Assume the market for beef is perfectly competitive. Beef producers currently earn a zero economic profit. If consumers switch from beef to chicken, which of the following is most likely to occur?
- A) Beef producers will now incur economic losses in both the short run and the long run.
  - B) Beef producers will incur economic losses in the short run. Some producers will exit the industry until those remaining earn a zero economic profit.
  - C) Beef producers will incur economic losses in the short run. Some producers will exit the industry until those remaining earn an economic profit.
  - D) Beef producers will now earn economic profits in the short run and there will be no additional adjustments in the long run.

Answer: B

Diff: 3

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Conceptual

- 15) Assume the market for beef is perfectly competitive. Beef producers currently earn a zero economic profit. If consumers switch to beef from chicken, which of the following is most likely to occur?
- A) Beef producers will now incur economic profits in both the short run and the long run.
  - B) Beef producers will incur economic profits in the short run. Some producers will enter the industry until all firms in the industry earn a zero economic profit.
  - C) Beef producers will incur economic profits in the short run. Some producers will enter the industry until all firms in the industry earn an economic profit.
  - D) Beef producers will now earn economic losses in the short run and there will be no additional adjustments in the long run.

Answer: B

Diff: 3

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Conceptual

- 16) As long as existing firms earn economic profits in an industry, new firms will \_\_\_\_\_ the industry and the industry supply curve will shift to the \_\_\_\_\_.
- A) enter; right
  - B) enter; left
  - C) not enter; left
  - D) not enter; right

Answer: A

Diff: 1

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Fact

- 17) As long as existing firms earn economic losses in an industry, new firms will \_\_\_\_\_ the industry and the industry supply curve will shift to the \_\_\_\_\_.
- A) enter; right
  - B) enter; left
  - C) exit; left
  - D) exit; right

Answer: C

Diff: 1

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Fact

- 18) As new firms enter a decreasing-cost industry
- A) the *LRAC* curve shifts down.
  - B) the *LRAC* curve shifts up.
  - C) the position of the *LRAC* curve doesn't change, but firms move down their *LRAC* curve.
  - D) the position of the *LRAC* curve doesn't change, but firms move up their *LRAC* curve.

Answer: A

Diff: 1

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Fact

19) As new firms enter an increasing-cost industry

- A) the *LRAC* curve shifts down.
- B) the *LRAC* curve shifts up.
- C) the position of the *LRAC* curve doesn't change, but firms move down their *LRAC* curve.
- D) the position of the *LRAC* curve doesn't change, but firms move up their *LRAC* curve.

Answer: B

Diff: 1

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Fact

20) Assume the tennis ball industry, a perfectly competitive industry, is in long-run equilibrium with a market price of \$5. If the demand for tennis balls DECREASES and the industry experiences decreasing returns to scale, long-run equilibrium will be reestablished at a price

- A) greater than \$5.
- B) less than \$5.
- C) equal to \$5.
- D) either greater than or less than \$5, depending on the number of firms that enter the industry.

Answer: B

Diff: 3

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Conceptual

21) Firms are making profits in an increasing-cost industry. Which of the following statements describes what will happen in the long run?

- A) More firms will enter this industry, causing the industry supply schedule to shift to the right and the *LRAC* curve facing firms to shift down.
- B) More firms will enter this industry, causing the industry supply schedule to shift to the right and the *LRAC* curve facing firms to shift up.
- C) Firms will exit this industry, causing the industry supply schedule to shift to the right and the *LRAC* curve to shift down.
- D) Firms will exit this industry, causing the industry supply schedule to shift to the left and the *LRAC* curve to shift down.

Answer: B

Diff: 3

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Conceptual

22) An industry with a positive sloping long-run supply curve is called a(n) \_\_\_\_\_ industry.

- A) constant-cost
- B) decreasing-cost
- C) increasing-cost
- D) decreasing-profit

Answer: C

Diff: 2

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Definition

23) An industry with a horizontal long-run supply curve is called a(n) \_\_\_\_\_ industry.

- A) constant-cost
- B) decreasing-cost
- C) increasing-cost
- D) decreasing-profit

Answer: A

Diff: 2

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Definition

24) In efficient markets \_\_\_\_\_ flows toward \_\_\_\_\_ opportunities.

- A) investment capital; consumption
- B) investment capital; profit
- C) consumption; profit
- D) consumption; investment

Answer: B

Diff: 1

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Fact

25) Related to the *Economics in Practice* on page 190: If firms have flat long run average cost curves,

- A) their long run supply curves are downward sloping.
- B) the optimal number of firms in the industry is one.
- C) larger firms have a cost advantage over smaller firms.
- D) it is impossible to predict the structure of the industry.

Answer: D

Diff: 2

Topic: Long-Run Adjustments: Economics in Practice

Skill: Conceptual

26) Related to the *Economics in Practice* on page 194: Hot dogs are more expensive in New York's Central Park than in the rest of the city

- A) due entirely to demand side factors.
- B) because hot dogs in Central Park are larger and tastier than those available outside the park.
- C) because vendors have fixed stands and those outside the park cannot wheel their carts into the park to compete with existing park vendors.
- D) due to the considerably higher prices of licenses to sell hot dogs in Central Park (as compared to the rest of the city).

Answer: D

Diff: 1

Topic: Long-Run Adjustments: Economics in Practice

Skill: Fact



## 2 True/False

- 1) Firms earning short run losses will exit in the long run.

Answer: TRUE

Diff: 1

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Conceptual

- 2) Short run profits attract resources to industries in the long run resulting in their expansion.

Answer: TRUE

Diff: 2

Topic: Long-Run Adjustments to Short-Run Conditions

Skill: Conceptual

## 9.4 Appendix: External Economies and Diseconomies and the Long-Run Industry Supply Curve

### 1 Multiple Choice

- 1) Sources of external economies of scale include

- A) larger plant size that allows the plant to take advantage of technology.
- B) larger firm size that result in volume discounts.
- C) larger industry size results in lower production costs.
- D) All of the above are correct.

Answer: C

Diff: 1

Topic: Appendix: External Economies and Diseconomies and the Long-Run Industry Supply Curve

Skill: Definition