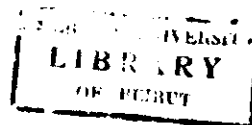


American University of Beirut
Economics Department

ECON 103



Exam II, Fall 2003-04

Version II – Section I

January 8, 2004

Time: 50 minutes

Student Name: _____

ID number: _____

Instructor: Rola Rizk
Good Luck!

① Profit is maximized when:

- a. $MR = MC$ for all types of firms
- b. $P = MR$ for a firm operating under perfect competition
- c. "TR minus TC" is maximized for all types of firms
- d. Both a and c are correct

② Suppose that Fawzi owns a pub on Monot Street "The Cool Bar". His total revenue is equivalent to LL 50 million per month. His variable cost is equal to LL 40 million per month and his fixed cost is equal to LL 30 million per month. When looking at his accounts, Fawzi makes the following reasoning:

- a. I have to shut down this operation because I am making a loss of LL 20 million per month
 - ⓑ Although I am losing, I will stay in operation because I need to minimize my losses. By staying in operation, I lose less money than by shutting down.
 - c. The information given above is not enough for me to make a judgement...since I am having fun, I will not shut down "The Cool Bar".
- (you're not responsible for this qn in Exam II)

③ Using the table below, the MPS is:

DI (US\$ million)	C (US\$ million)
1100	780
1200	800
1300	820
1400	840
1500	860

- a. 0.2
- b. 0.5
- Ⓒ 0.8
- d. -0.8
- e. -0.2

④ Real GDP adjusts for the effects of:

- a. Recession
- ⓑ Inflation
- c. Unemployment
- d. Interest rates

⑤ The perfectly competitive firm's short-run shutdown rule is to shut down immediately if:

- a. $TR < TC$
- b. $TR < TFC$
- Ⓒ $TR < TVC$
- d. $TR < MC$

(you're not responsible for this question in Exam II)

7 **Marginal revenue is**

- a. one minus marginal cost
- b. wages minus economic profit
- c. total revenue divided by total cost
- d. the change in total revenue associated with selling an additional unit of a good

8 **The demand curve of a monopolist is:**

- a. Perfectly horizontal at the market place.
- b. Identical to the marginal cost curve of the monopolist.
- c. Downward sloping and above the marginal revenue curve of the monopolist.
- d. Downward sloping and below the marginal revenue curve of the monopolist

9 **Which of the following constitutes a barrier limiting the entry of potential competitors into a market?**

- a. Legally enforced patent rights.
- b. Large economies of scale.
- c. Licensing.
- d. Control over an essential resource.
- e. All of the above

10 **If the firm's lowest average cost (AC) is \$48, and the corresponding AVC is \$24, what does it pay a perfectly competitive firm to do if the price is \$35?**

- a. Continue operation because it is making profit
- b. Shut down because it is incurring losses
- c. Continue operation although it is making losses
- d. None of the above

[Not responsible for # 9n 10 in exam II]

11 **The table below shows demand and TC schedules for the monopolist "Monopoliteria". At its profit-maximizing level of output, Monopoliteria's profit is (please show your calculations):**

Q	18	16	14	12	10	4
P	1	2	3	4	5	6
TC	44	38	32	26	20	14

- a. US\$ 10
- b. US\$ 15
- c. US\$ 22
- d. US\$ 30

12 **Which is a tool of fiscal policy?**

- a. Wage and price controls
- b. Government expenditures
- c. Control of money supply
- d. Control of the exchange rate
- e. All of the above

- 12 Since the Paris II meeting on November 23, interest rates in Lebanon have decreased by a large amount. In this case what do you think will happen?
- Output and prices will fall
 - Output and prices will rise
 - Output will rise and price will fall
 - Output will fall and price will rise
 - None of the above
- 13 If the demand curve that the firm faces is sharply downward sloping, we can reasonably believe that:
- the firm is not a price taker but rather one that can influence the price of the product it sells
 - the firm cannot affect the price of the product it sells
 - The firm must lower its price if it hopes to increase its profits
 - The firm's contribution to total output is insignificant
- 14 AD is negatively sloping due to:
- When prices decline, quantities demanded decline too
 - The income effect
 - The positive correlation between C and I
 - The negative correlation between interest rates and consumption
- 15 A country has a budget deficit when:
- Government revenues exceed government expenditures
 - Government expenditures are larger than government revenues
 - Unemployment is coupled with inflation
 - None of the above
- 16 What happens if Mr. Salameh, Governor of the Central Bank in Lebanon increases interest rates by a large amount?
- AS will shift to the right
 - AS will shift to the left
 - AD will shift to the right
 - AD will shift to the left
 - None of the above
- 17 A shift in the AS function could be caused by which of the following?
- A change in input prices
 - A shortage in supply of oil or energy
 - The breakdown of OPEC
 - A technological innovation
 - All of the above
- 18 The costs of inflation:
- Do not involve a redistribution of income of the population
 - Depend upon whether the inflation is anticipated
 - Do not include any social problems
 - None of the above

- (19) **A discouraged worker:**
- Currently counted as not in the labor force
 - A person who has stopped looking for work because he or she is convinced that no jobs are available in his or her field
 - Currently not counted as being unemployed
 - All of the above
 - Currently unemployed
- (20) **If actual output is less than potential output, so that a GDP gap exists, the gap can be reduced by:**
- An increase in AD or an upward shift in AS
 - A decrease in AD or an upward shift in AS
 - An increase in AD or a downward shift in AS
 - A decrease in AD or an upward shift in AS
- (21) **When a new college graduate fails to find a job, he or she is:**
- a discouraged worker
 - in the labor force but unemployed
 - employed
 - not counted as part of unemployment until after his first job
 - not in the labor force
- (22) **Investment spending does not include:**
- purchases of new housing
 - purchases of new factories
 - additions to a firm's inventory of finished goods
 - the purchase of Coca-Cola stock
 - all of the above are considered as part of investment
- (23) **When the economy is operating at full employment, the following can be deduced:**
- The unemployment rate is 0% and output is growing
 - Potential output is attained
 - The economy is naturally going through a deflationary period
 - None of the above
- (24) **Lebanon's population is equivalent to around 4 million people. The unemployment rate is equal to 30%. What can you deduce (please show the calculations)?**
- Out of the 4 million individuals, 1.2 million are unemployed
 - Out of the 4 million individuals, a certain amount constitutes the labor force. 30% of this labor force is unemployed
 - No deduction can be made out of the given
 - The unemployment rate is low

(25) Assume Samar is planning to buy a house for US\$ 100,000. She visits Daoud, the bank manager (in December 2002), who informs her that he will lend her the money at a 10% annual interest rate (the inflation rate = 2% in 2002). Samar will need to repay him the full amount (principal + interest) in December 2003. Also, assume that Samar already knows that next year's inflation rate will be 30%. What would she do?

- a. She would not sign the contract because she does not think it is a good deal
- b. She would immediately sign the contract and take the loan; after all, if she visits him in 2003, he would lend her the money at a rate that is higher than 30%
- c. She is indifferent. She wants to buy that house, but she cannot make up her mind. The calculations are too difficult.

(26) In the pure competition model, what impact does the individual firm have on the price of the product?

- a. The firm will be able to sell more units if it reduces its price.
- b. The firm has no choice but to sell at the market-determined price.
- c. The firm may raise or lower its price to a small extent, but sales revenues will tend to be pretty much the same regardless of price.
- d. The firm may raise its price and thereby increase its revenues.
- e. The firm may raise or lower its price to a considerable extent, but sales revenues will tend to be pretty much the same regardless of price.

[Not responsible for qn 27 in Exam II]

(27) The consumer price index is in part based upon which of the following major categories?

- a. Shelter
- b. Food
- c. Medical Expenses
- d. Education expenses
- e. All of the above

(28) The objectives of macroeconomics are:

- a. To attain a growing level of output, high inflation rate, and a low unemployment rate
- b. To attain a growing level of output, stable prices, and a high unemployment rate
- c. To attain a stable level of output, stable prices, and a low unemployment rate
- d. To attain a growing level of output, stable prices, and a low unemployment rate

(29) When MC equals AVC, the

- a. AVC will be at its minimum
- b. AVC will be at its maximum
- c. MC will be minimized
- d. AFC equals zero

[Not responsible for qn 30 in Exam II]

(30) Due to the recession that has hit the Lebanese economy, Hassan was laid off from his job as a manager at the Pepsi Cola factory. Hassan is considered to be:

- a. Frictionally unemployed
- b. Structurally unemployed
- c. Cyclically unemployed
- d. Not yet in the labor force

~~(31)~~ A perfectly competitive firm's demand curve

- (31) a. is identical to the market demand curve
 b. yields constant total revenues
 c. coincides with the firm's marginal revenue curve
 d. coincides with the firm's marginal cost curve
 e. is downward sloping

[Not responsible for qn 32 for in Exam II]

(32) ~~(32)~~ Nominal GDP has increased from US \$40 billion in 2000 to US\$50 billion in 2001. What do these numbers indicate?

- a. That production has effectively increased by US\$10 billion
 b. That the inflation rate was equivalent to 25% in 2001
 c. Both of the above
 d. None of the above
 e. Either one of the above is possible

(33) ~~(33)~~ In a market with perfectly competitive firms, the market demand curve is usually _____ and the demand curve facing each individual firm is _____.

- c. upward sloping; horizontal.
 d. downward sloping; horizontal.
 e. horizontal; downward sloping.
 f. downward sloping; downward sloping.

[Not responsible for qn 34 in Exam II]

(34) ~~(34)~~ Which of the following is accurate?

- a. Inflation means that, on average, the prices of the goods and services produced by an economy are falling
 b. Deflation means that the prices of the goods and services produced by an economy are, on average, climbing
 c. Deflation means that the prices of the goods and services produced by an economy are, on average, falling
 d. None of the above is accurate

(35) ~~(35)~~ Assume that Lebanon's CPI (consumer price index) this year is 160 versus last year's 140. What is the inflation rate (please show the calculations)?

- a. Around 14% of inflation
 b. Around 1.4% of inflation
 c. Around 14% of deflation
 d. Around 12% of inflation
 e. We cannot conclude it from the above information

(36) ~~(36)~~ Real GDP has increased from US \$30 billion in 2000 to US \$ 40 billion in 2001. What do these numbers indicate?

- a. That the inflation rate was equivalent to 33% in 2001
 b. That production has effectively increased by US\$10 billion
 c. Both of the above
 d. None of the above
 e. Either one of the above is possible

Total population (in million)	Currently Employed	Not working & looking for work	Want to work but no longer looking for job
100	20	10	15

(37) In the table above, the unemployment rate is (please show the calculations):

- (37) a. 10%
b. 15%
(c) 33%
d. 45%

(38) In the table above, the number of people outside the labor force is:

- a. 15 million
(b) 70 million
c. 80 million
d. 80 million
e. 100 million

(39) Lebanon's Minister of Finance, Mr. Siniora has imposed a value added tax on February 1, 2002. This is an example of:

- (a)** Contractionary fiscal policy
b. Expansionary fiscal policy
c. Contractionary monetary policy
d. Expansionary monetary policy

(40) Consider that "Al-Khudair" firm operates under perfect competition. If the price of the product it is selling is \$50, how many units should that firm produce (referring to the schedule below) if it is operating at profit-maximization (please show the calculations)?

Q	FC	VC	TC
0	55	0	
1	55	30	
2	55	55	
3	55	75	
4	55	105	
5	55	155	
6	55	225	

- a. Q = 2
b. Q = 3
(c) Q = 4
d. Q = 5

[Not responsible for qns 41 ^{£ 42} in Exam II]

~~(41)~~ How much would profit be at this level of output?

- (41) a. 20
b. 30
c. 40
d. 50

~~(42)~~ Total savings are exactly zero:

- (42) a. At the break-even point
b. Where $MPS = MPC$
c. When total consumption = total savings
d. When $MPC = 1$

~~(43)~~ Suppose that Saad is an economic consultant performing a study on the Jordanian economy. He notices that Jordan's real GDP is less than potential GDP. He therefore deduces that:

- (43) a. The Jordanian economy is going through a downturn or a recession.
b. The Jordanian economy is booming
c. The unemployment rate must therefore be high and the economy must be operating below its production possibility frontier
d. Both a and c
e. Both b and c

~~(44)~~ Prime Minister Hariri's government decides to raise government spending "G" by LL 100 billion. Knowing that $MPS = 0.2$ in Lebanon, how would the economy be affected?

- (44) a. Nothing would happen – the economy is not affected by government spending
b. Total spending would immediately increase by LL 80 billion as a result of this increase in G
c. At the end, total spending would ultimately rise by LL 500 billion as a result of this increase in G
d. Both b and c are correct

[Not responsible for qn 45 in Exam II]

~~(45)~~ If Jad's MPC is 0.8, every \$10 increase in his disposable income raises

- (45) a. his consumption by \$0.8
b. the elasticity of his demand by 0.8
c. his saving by \$0.2
d. his consumption by \$8

~~(46)~~ Suppose that Rasha receives \$200 worth of disposable income from her parents every month. Her $MPS = 0.3$. This means that:

- (46) a. Rasha consumes \$60 every month and saves the rest
b. Rasha consumes \$140 every month and saves the rest
c. Rasha's savings are exactly equal to her consumption
d. None of the above is correct

~~(47)~~ A contractionary fiscal policy is:

- (47) a. A cut in taxes or an increase in government spending
b. An increase in taxes or a cut in government spending
c. An increase in both taxes and government spending

d. A cut in both taxes and government spending

(48) **Macroeconomics differ from microeconomics in that macroeconomics**

- a. Includes second round effects while microeconomics does not
- b. Analyses marginal as well as average benefits and costs
- c. Studies the national economy while microeconomics analyses the decisions of individual people and firms
- d. Emphasizes relative instead of price indices.

~~(48)~~ **Lina has lost her job at Blom Bank because she is not computer literate during a time**
(49) **when the bank is doing a major restructuring .She would be classified as:**

- a. Frictionally unemployed
- b. Structurally unemployed
- c. Cyclically unemployed
- d. Outside the labor force

(50) **Which of the following best describes the relationship between interest rates and the level of investment spending?**

- a. They are directly related to each other
- b. They are inversely related to each other
- c. They move together but with no visible relationship
- d. They are unrelated
- f. None of the above