Name:______________________________

Economics 100 – Exam 2

1. During the long run:

   A. Output is limited because of the law of diminishing returns
   B. The scale of operations cannot be changed
   C. The firm must decide how to use the current plant
   D. All inputs are variable

2. Which of the following is true for a monopolist?

   A. It is a price taker
   B. Profit is maximized where marginal cost equals marginal revenue
   C. The firm faces a horizontal or flat demand curve
   D. It will earn zero economic profit in the long run

3. In terms of the short-run production function, there is a limit on potential output because:

   A. Consumer demand is not great enough
   B. There are land and capital constraints
   C. Government policies limit profit
   D. Workers tend to be lazy

4. Demand is defined as the:

   A. Desire for goods and services
   B. Ability and willingness to sell goods at various prices
   C. Ability and willingness to buy specific quantities of a good or service at various prices in a given time period, *ceteris paribus*
   D. Sensitivity of buyers to a change in price

5. One of the objectives of advertising, from an economic perspective is to shift the:

   A. Supply curve to the left
   B. Supply curve to the right
   C. Demand curve to the left
   D. Demand curve to the right

6. Marginal physical product is:

   A. Equal to the average output of a worker
   B. The additional utility a consumer gets from the last unit of a product
   C. The additional output from using one more unit of labor
   D. Equal to the total product of labor

7. According to the law of diminishing marginal utility:

A. Total utility from consuming a good always rises
B. Total utility from consuming one more unit of a good eventually falls
C. Marginal utility of a good declines as more of it is consumed in a given time period
D. Marginal product of labor declines as more of a variable input is used

8. Which of the following is a determinant of demand for a good?

A. Consumer income
B. The number of available workers
C. Prices of factor inputs
D. Technology

9. Which of the following might be used to protect a monopoly from competition?

A. A horizontal demand curve
B. Marginal revenue
C. A patent
D. A contestable market

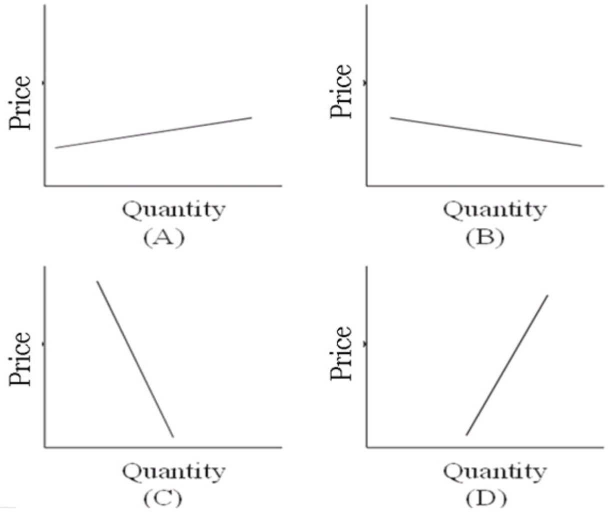
10. Assume a restaurant hires an additional chef who is as qualified as the current chefs. As a result, the level of output increases but by a smaller amount than when the previous additional chef was hired. Which of the following explains this occurrence?

A. The chefs are working with a fixed amount of space and equipment and they get in each other's way
B. The additional wages cause profit to decrease
C. The amount of food available for preparation is limited so output decreases
D. The two chefs do not agree on food preparation and spend too much time arguing

11. When producing jeans, which of the following is *not* a variable cost in the short run?

A. Wages
B. Zippers
C. Rent for the factory
D. Denim material

Figure 4.1



12. In Figure 4.1, the price elasticity of demand in Graph B is:

A. Unitary elastic
B. Relatively elastic
C. Relatively inelastic
D. Impossible to determine by looking at the graph

13. If the price elasticity of demand is 2.2, then a 20 percent increase in the price of the good will lead to a _______ percent decrease in the quantity demanded.

A. 44.0
B. 1.1
C. 11.0
D. 0.22

14. The amount of satisfaction obtained from consuming an additional sandwich is:

A. Never negative
B. Total utility
C. A function of supply
D. Marginal utility

15. In a market economy, producers will produce the goods and services that:

A. Are least expensive to produce
B. Consumers need the most
C. Consumers demand
D. The government finds most beneficial

16. If the price elasticity of demand for Baja Fresh tacos is 2.5, then Baja Fresh can:

A. Reduce the price of tacos by 25 percent and total revenue will remain the same
B. Raise the price of tacos and total revenue will increase
C. Reduce the price of tacos by less than 25 percent and total sales will remain the same
D. Reduce the price of tacos and total revenue will increase

17. Competitive firms cannot individually affect market price because:

A. There is an infinite demand for their goods
B. The market demand curve is flat or horizontal
C. Their individual production is insignificant relative to the production of the industry
D. The government exercises control over the market power of competitive firms

18. Which of the following is the best example of a perfectly competitive market?

A. The breakfast cereal industry
B. The textbook industry
C. The plasma TV market
D. The apple market

19. If the marginal utility for slices of pizza is decreasing but positive, then:

A. The total utility for slices of pizza is increasing
B. The total utility for slices of pizza is decreasing
C. The total utility for slices of pizza is negative
D. Additional slices of pizza yield zero satisfaction

20. Which of the following is most likely to be inelastic with respect to demand?

A. Illegal drugs
B. Airline travel in the long run
C. New cars
D. HDTV sets

21. Market power:

A. Is the same for all market structures
B. Means that a firm is a price taker, not a price setter
C. Is the ability to alter the market price of a good or service
D. Only exists for a monopoly

22. A monopolist sets price at a point on the _______ curve, corresponding to the rate of output determined by the intersection of _______.

A. Demand; marginal revenue and marginal cost
B. Marginal revenue; marginal revenue and marginal cost
C. Average total cost; price and marginal cost
D. Demand; average total cost and marginal cost

Table 5.2—Jeans Production

Rate of output (jeans per day)	Total cost
0	$ 60.00
10	102.50
15	122.50
20	135.00
30	180.00
40	290.00

23. What is the marginal cost of the 15th pair of jeans in Table 5.2?

A. $8.17
B. $20.00
C. $1.33
D. $4.00

24. If the firm in Table 5.2 receives $7.00 for each pair of jeans, in the short run it should:

A. Produce 30 pairs of jeans
B. Produce 40 pairs of jeans
C. Produce 20 pairs of jeans
D. Only produce jeans if the price is greater than average total cost

25. Which of the following does *not* influence the price elasticity of demand?

A. The availability of substitutes
B. The price of the item relative to your budget
C. The costs of production
D. Successful advertising

26. Although there are other pizza restaurants in town, Pacos' Pizza Place is the oldest and largest so it is a monopoly.

True False

27. Which of the following firms is likely to have the greatest market power?

A. A farmer who can sell as much lettuce as he can grow
B. A single soft drink company serving a campus with no barriers to entry
C. The sole producer of the latest computer microchip technology
D. A regulated natural monopoly selling natural gas service

28. Utility refers to the:

A. Additional satisfaction obtained from one more unit of a good or service
B. Satisfaction obtained from a good or service
C. Willingness to buy specific quantities of a good or service at a particular price
D. Decrease in satisfaction as more of a good or service is consumed

29. As noted in the text, which of the following was used by Nintendo to control the video game market?

A. A natural monopoly
B. Economies of scale
C. A government franchise
D. Exclusive licensing

30. Which of the following is an argument in support of monopolies?

A. They increase output and raise prices, contributing to greater consumption of scarce resources
B. They are protected from competition so they have greater ability to pursue research and development
C. They contribute to efficient production when there are diseconomies of scale
D. They provide the economic profit necessary for survival and efficient production in a market

31. If the price elasticity of demand for a product is 1.7, this means that quantity demanded will increase by _______ for each _______ decrease in price, *ceteris paribus*.

A. 1.7 percent; 1 percent
B. 1 unit; $1.70
C. 1 percent; 1.7 percent
D. 1.7 units; $1

32. Market power is a form of market failure because:

A. Competition is restricted, output is reduced and the price is higher
B. It involves externalities
C. Monopolies produce more output than is optimal
D. Administrative costs of compliance are high

33. In the short run, a manufacturer should produce the next unit of output as long as:

A. Marginal cost is greater than price
B. Price is greater than total cost
C. Price is greater than marginal cost
D. Price equals total cost

34. If Pepsi and Coke are the only two soft drink producers, they could be considered:

A. A duopoly
B. A monopoly
C. An oligopoly
D. Perfectly competitive firms

35. In a competitive market with economic profits, equilibrium:

A. Price will rise as new firms enter the market
B. Price will fall as new firms enter the market
C. Quantity will fall as new firms enter the market
D. Quantity will remain the same as new firms enter the market

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Version #1

1. D

2. B

3. B

4. C

5. D

6. C

7. C

8. A

9. C

10. A

11. C

12. B

13. A

14. D

15. C

16. D

17. C

18. D

19. A

20. A

21. C

22. A

23. D

24. A

25. C

26. FALSE

27. C

28. B

29. D

30. B

31. A

32. A

33. C

34. A

35. B