1. Market power is considered to be a market failure because firms with market power:

   A) Do not respond to consumer demand
   B) Tend to ignore external costs
   C) Produce less output than is socially optimal
   D) Charge a lower price than is socially optimal

2. According to Keynes:

   A) Small disturbances in prices and output are always short term
   B) The economy is inherently stable
   C) Government intervention in the economy is necessary at times
   D) High unemployment is always a temporary situation

3. Labor unions are able to maintain _____ wages for union members by _____ the market.

   A) Above-equilibrium; excluding some workers from
   B) Above-equilibrium; including all workers in
   C) Below-equilibrium; excluding some workers from
   D) Below-equilibrium; including all workers in

4. Which of the following is likely to cause a leftward shift in the aggregate supply curve, *ceteris paribus*?

   A) An increase in consumer confidence
   B) A decrease in taxes for businesses
   C) An increase in the supply of skilled labor
   D) An increase in the cost of natural gas

5. If a good generates an external cost, the market will produce:

   A) Some of the good but not enough
   B) Too much of the good
   C) An optimal amount of the good
   D) None of the good

6. Which of the following events destroyed the credibility of classical economic theory?

   A) World War II
   B) The Great Depression
   C) The Vietnam War
   D) The Terrorist Attacks of 2001
The following table shows how apple output changes as additional apple pickers are hired. Calculate marginal physical product, total revenue and marginal revenue product. The price of apples is $4 per basket.

Table 8.1—Apple Production

<table>
<thead>
<tr>
<th>Number of Pickers (per day)</th>
<th>Total Apple Output (baskets per day)</th>
<th>Marginal Physical Product (baskets per day)</th>
<th>Total Revenue</th>
<th>Marginal Revenue Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4</td>
<td>****</td>
<td></td>
<td>****</td>
</tr>
<tr>
<td>2</td>
<td>10</td>
<td>****</td>
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<td>****</td>
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<tr>
<td>3</td>
<td>15</td>
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<td></td>
<td>****</td>
</tr>
<tr>
<td>4</td>
<td>19</td>
<td>****</td>
<td></td>
<td>****</td>
</tr>
<tr>
<td>5</td>
<td>22</td>
<td>****</td>
<td></td>
<td>****</td>
</tr>
</tbody>
</table>

7. In Table 8.1, what is the marginal revenue product of the 2\textsuperscript{nd} apple picker?
   
   A) $6
   B) $10
   C) $24
   D) $40

8. In Table 8.1, what is the marginal physical product of the 2\textsuperscript{nd} apple picker?
   
   A) 2 baskets per day
   B) 6 baskets per day
   C) 10 baskets per day
   D) 24 baskets per day

9. In Table 8.1, if the equilibrium wage is $20 per day, how many apple pickers will the firm hire?
   
   A) 2
   B) 3
   C) 4
   D) 5

10. The opportunity cost of working is the:

   A) Wage rate plus the value of fringe benefits earned in the process
   B) Wage rate earned in the process but not the fringe benefits
   C) Personal satisfaction gained from working
   D) Value of leisure time that is given up in the process

11. Which of the following is most likely a public good?

   A) A park
   B) Electricity
   C) A computer
   D) Social Security payments
12. The first antitrust act to prohibit "conspiracies in restraint of trade" was:

A) The Sherman Act
B) The Clayton Act
C) The Federal Trade Commission Act
D) Case decisions such as those for AT&T and Microsoft

13. Government intervention in the economy:

A) Always fixes macroeconomic market failures
B) Always fixes microeconomic market failures
C) Always makes the economy worse off
D) May fix market failures or make the economy worse off

14. Classical economists believed in:

A) The use of fiscal policy
B) The use of monetary policy
C) An inherently stable economy
D) A market intervention approach

15. Marginal _____ product sets _____ dollar limit on the wage rate an employer will pay.

A) Physical; an upper
B) Physical; a lower
C) Revenue; an upper
D) Revenue; a lower

16. The communal nature of a highway means that no one individual is motivated to pay for it because even those who do not pay will still benefit from using it. This is an example of:

A) The free-rider dilemma
B) Government failure
C) Inequity
D) A natural monopoly

17. Alternating periods of growth and contraction in real GDP define:

A) The business cycle
B) Capitalism
C) Inflation
D) Macro equilibrium

18. Many local governments have made smoking illegal in public buildings. What is the market failure that most likely prompted this government intervention?

A) Equity issues
B) Externalities
C) Market power
D) Public goods
19. Which theories of the economy lead to the assertion that markets "self-adjust" to deviations from their long-term growth trend?

A) Keynesian theories
B) Monetarist theories
C) Classical theories
D) Supply-side theories

20. Keynes viewed the economy as inherently unstable and suggested that during a recession policy makers should:

A) Cut taxes and/or increase government spending
B) Cut taxes and/or reduce government spending
C) Raise taxes and/or increase government spending
D) Raise taxes and/or reduce government spending

21. Market failure occurs when:

A) Market prices signal producers to produce the optimal mix of output
B) The economy produces at a point on the production possibilities curve
C) Producers supply the goods that earn the greatest profit
D) An imperfection in the market mechanism prevents an optimal outcome

22. A firm's demand for labor is referred to as a derived demand because it is derived from the:

A) Marginal physical product of labor
B) Demand for the product that labor produces
C) Wages labor receives from the firm
D) Supply of labor

23. Over time, U.S. real GDP has increased:

A) By small, constant increments
B) At a constant geometric rate
C) At an average rate of 3 percent per year
D) At an average rate of 7 percent per year

24. Ceteris paribus, if the cost of daycare increases causing some workers to leave the labor market and stay home with their children:

A) There is movement up the labor supply curve
B) There is movement down the labor supply curve
C) The labor supply curve shifts to the right
D) The labor supply curve shifts to the left

25. Which of the following would cause the aggregate demand curve to decrease, ceteris paribus?

A) Strong performance of foreign economies
B) A decrease in interest rates
C) An increase in income taxes
D) An increase in the value of the stock market
26. Which of the following is most likely to have social demand greater than market demand?

A) Health services  
B) Cars  
C) Housing  
D) Cigarettes

27. Suppose that in a population of 100 million people, 50 million are in the labor force and 47 million are employed. The unemployment rate is:

A) 6.0 percent  
B) 6.4 percent  
C) 53.0 percent  
D) 94.0 percent

28. Which of the following are internal market forces?

A) Innovation, population growth and spending behavior  
B) Wars, natural disasters and trade disruptions  
C) Government regulation, tax policy and the availability of money  
D) Jobs, prices and growth

29. At the intersection of the aggregate supply and aggregate demand curves, the economy is experiencing:

A) Full employment  
B) Macro equilibrium  
C) Low levels of inflation  
D) Population growth

30. Market failure establishes a basis for:

A) Market power  
B) Externalities  
C) Government intervention  
D) Private goods

1 C 7 C 13 D 19 C 25 C  
2 C 8 B 14 C 20 A 26 A  
3 A 9 B 15 C 21 D 27 A  
4 D 10 D 16 A 22 B 28 A  
5 B 11 A 17 A 23 C 29 B  
6 B 12 A 18 B 24 D 30 C