SAMPLE MULTIPLE CHOICE FINAL EXAM

CHAPTER 6 THE ANALYSIS OF COSTS

1. Long-run average cost equals long-run marginal cost whenever

- **a)** the production function exhibits constant returns to scale.
- **b)** fixed costs are zero.
- **c)** no factor always has increasing marginal returns.
- **d)** the cost of capital is near zero.
- **e)** long-run marginal cost is at its minimum.

2. When average total cost is at its minimum,

- **a)** average variable cost is declining with increases in output.
- **b)** average variable cost plus average fixed cost is declining with increases in output.
- **c)** average total cost is equal to average variable cost.
- **d)** marginal cost is equal to average variable cost.
- **e)** marginal cost is equal to average total cost.

3. Where long-run average cost equals short-run average cost,

- **a)** short-run average cost is minimized.
- **b)** long-run average variable cost equals short-run average variable cost.
- **c)** long-run average cost equals long-run marginal cost.
- **d)** long-run average cost is minimized.
- **e)** long-run marginal cost equals short-run marginal cost.

4. Leisure Enterprise's total cost of producing speedboats is given by $TC = 10Q^3 - 4Q^2 + 25Q + 500$. On the basis of this information, the marginal cost of producing the twenty-fifth speedboat is

- **a)** $1,700.
- **b)** $6,050.

- **c)** $18,575.
- **d)** $18,775.
- **e)** $19,075.

5. Tasty Tortes's weekly total cost of baking pies is given by $TC = 0.01Q^{1.5}$. Tasty's marginal cost of producing 10,000 pies a week is

- **a)** $1.00.
- **b)** $1.50.
- **c)** $2.00.
- **d)** $2.50.
- **e)** $4.50.

6. Economies of scope exist when it is cheaper to produce

- **a)** with a large fixed plant and equipment.
- **b)** at increasing rates of output.
- **c)** given quantities of two different products together than to produce the same quantities separately.
- **d)** given quantities of two different products separately than to produce the same quantities together.
- **e)** using more than one technique.

7. The Wilson Corporation produces output according to $Q = 4(KL)^{1/2}$, where K is the amount of capital used and L is the amount of labor employed. If capital costs $2 per unit and labor costs $8 per unit, Wilson's minimized long-run average total cost is

- **a)** $2.
- **b)** $2Q.
- **c)** $10.
- **d)** $10Q.
- **e)** $22.

8. Bill's Mechanical Devices Inc. produces robots for the automotive industry. If its average variable costs are given by AVC = 25, its fixed costs are $2,500, and it charges $75 a robot, what is Bill's break-even level of output?

- **a)** 25 robots
- **b)** 33.3 robots
- **c)** 50 robots
- **d)** 75 robots
- **e)** 100 robots

9. Trudeau's Body Shop incurs total costs given by TC = 2,400 + 100Q. If the price it charges for a paint job is $120, what is its break-even level of output?

- **a)** 20 paint jobs
- **b)** 40 paint jobs
- **c)** 60 paint jobs
- **d)** 90 paint jobs
- **e)** 120 paint jobs

10. If total cost is given by $TC = a + bQ - cQ^2 + dQ^3$, then marginal cost is minimized at _____ units of output.

- **a)** $Q^* = a / 2d$
- **b)** $Q^* = b / 2d$
- **c)** $Q^* = c / 2d$
- **d)** $Q^* = b / 3d$
- **e)** $Q^* = c / 3d$

CHAPTER 7 PERFECT COMPETITION

1. In the model of perfect competition, firms maximize profits by producing where

- **a)** the difference between marginal revenue and marginal cost is maximized.
- **b)** marginal revenue equals price.
- **c)** the difference between price and marginal cost is maximized.
- **d)** price equals marginal cost.
- **e)** the difference between price and marginal revenue is maximized.

2. If the perfectly competitive market demand for gym shoes is given by $Q_D = 100 - P$ and the market supply is given by $Q_S = 10 + 2P$, then the equilibrium price and quantity will be

- **a)** P = 50 and Q = 50.
- **b)** P = 40 and Q = 90.
- **c)** P = 40 and Q = 60.
- **d)** P = 30 and Q = 70.
- **e)** P = 25 and Q = 75.

3. If a representative firm with total cost given by $TC = 20 + 20q + 5q^2$ operates in a competitive industry where the short-run market demand and supply curves are given by $Q_D = 1{,}400 - 40P$ and $Q_S = -400 + 20P$, its short-run profit maximizing level of output is

- **a)** 0 units.
- **b)** 1 unit.
- **c)** 2 units.
- **d)** 4 units.
- **e)** 6 units.

4. If a representative firm with long-run total cost given by $TC = 2{,}000 + 20q + 5q^2$ operates in a competitive industry where the market demand is given by $Q_D = 10{,}000 - 40P$, in the long-run equilibrium there will be

- **a)** 60 firms.
- **b)** 98 firms.
- **c)** 106 firms.
- **d)** 110 firms.
- **e)** 120 firms.

5. A representative firm with long-run total cost given by TC = 2,000 + 20q + $5q^2$ operates in a competitive industry where the market demand is given by Q_D = 10,000 – 40P. The long-run equilibrium output of the industry will be

- **a)** 1,200 units.
- **b)** 1,800 units.
- **c)** 2,200 units.
- **d)** 2,600 units.
- **e)** 3,200 units.

6. If a representative firm with long-run total cost given by TC = 2,000 + 20q + $5q^2$ operates in a competitive industry where the market demand is given by Q_D = 10,000 – 40P, the long-run equilibrium output of the individual firm's will be

- **a)** 10 units.
- **b)** 20 units.
- **c)** 30 units.
- **d)** 35 units.
- **e)** 40 units.

7. Producer surplus is defined as

- **a)** the difference between the price the consumer actually pays for a product and the consumer's reservation price.
- **b)** the profit that the firm earns on each unit of a product sold.
- **c)** the profit that the firm earns after taxes.

- **d)** the difference between the price received by the producer and the producer's reservation price.
- **e)** the difference between the price paid by the consumer and the price received by the consumer.

8. Total surplus in a market is a measure of

- **a)** social welfare created by the market.
- **b)** profits that accrue to the owners of firms in a particular market.
- **c)** the rebates that consumers receive when they purchase certain goods or services.
- **d)** excess inventory that remains at the end of a season.
- **e)** planned inventory that a firm carries from one year to the next.

9. If the demand increases for the product of a constant-cost industry,

- **a)** long-run output goes up but long-run price may go up or down.
- **b)** short-run output goes up but long-run output may go up or down.
- **c)** short-run price goes up but long-run price remains constant.
- **d)** long-run output goes up but short-run price remains constant.
- **e)** long-run price goes up but short-run price may go up or down.

CHAPTER 8 MONOPOLY & MONOPOLISTIC COMPETITION

1. If Harry Doubleday's price elasticity of demand is –2 and its profit maximizing price is $6, then

- **a)** average cost is $3.00.
- **b)** average cost is $.33.
- **c)** marginal cost is $3.00.
- **d)** marginal cost is $.33.
- **e)** average cost is $5.67.

2. My Big Banana (MBB) has a monopoly in Middletown, United States, on large banana splits. The demand for this delicacy is given by $Q = 80 - P$. MBB's costs are given by $TC = 40 + 2Q + 2Q^2$. Its maximum monopoly profits are

- **a)** $267.
- **b)** $467.
- **c)** $627.
- **d)** $672.
- **e)** $674.

3. If price P, unit costs C, and quantity Q, are known, the markup of markup-cost pricing is

- **a)** $(PQ - CQ)/Q$.
- **b)** $P - C/Q$.
- **c)** $(P - C)/Q$.
- **d)** $(P - C)/C$.
- **e)** $1 - (P - C)/Q$.

4. So long as price exceeds average variable cost, in the model of monopolistic competition, a firm maximizes profits by producing where

- **a)** the difference between marginal revenue and marginal cost is maximized.
- **b)** marginal cost equals marginal revenue.
- **c)** marginal revenue equals price.
- **d)** the difference between price and marginal cost is maximized.
- **e)** price equals marginal cost.

CHAPTER 9 MANAGERIAL USE OF PRICE DISCRIMINATION

1. When the NCAA basketball tournament will only sell tickets to all three games held at a given site as a package, it is practicing

- **a)** first-degree price discrimination.
- **b)** second-degree price discrimination.
- **c)** third-degree price discrimination.
- **d)** markup pricing.
- **e)** tying.

2. Price discrimination is defined as

- **a)** selling a product at the same price to each and every consumer.
- **b)** selling a product at more than one price.
- **c)** selling a product at its marginal cost plus a markup.
- **d)** selling more than one version of a product.
- **e)** producing goods and services for sale within the firm.

3. A firm with production located in a poor Georgia town sells toys locally for $10 each and ships the same toys to sell in a wealthy North Carolina town for $15 each. They are not price discriminating if

- **a)** laws in Georgia allow it.
- **b)** laws in North Carolina allow it.
- **c)** total advertising costs are $5 per unit.
- **d)** total transportation costs are $5 per unit.
- **e)** consumers in North Carolina would pay more than $15 for the toys.

4. Cereal manufacturers' use of coupons can be partially explained by

- **a)** first-degree price discrimination.
- **b)** second-degree price discrimination.
- **c)** third-degree price discrimination.

- **d)** markup pricing.
- **e)** tying.

5. Gliberace's Fashion Accessories of Las Vegas produces gem-stone encrusted formal wear for sale in Los Angeles and San Francisco subject to total cost TC = 100 + 5(Q_{LA} + Q_{SF}). Demand for Gliberace's stones in the two cities is given by Q_{LA} = 70 – 2P_{LA} and Q_{SF} = 55 – P_{SF}. If Gliberace price discriminates between the two cities, how many stones will it sell in Los Angeles?

- **a)** 30
- **b)** 36
- **c)** 38
- **d)** 43
- **e)** 48

CHAPTER 10-BUNDLING & INTRAFIRM PRICING

1. A firm has a division that produces X, whose total costs are TC = 10 + Q^2 (where Q is the quantity of X). The marketing division adds its own total costs of 5 + 3Q. In the competitive external market for X the wholesale price is $10. The transfer price of X should be

- **a)** $2.
- **b)** $5.
- **c)** $10.
- **d)** $12.
- **e)** $15.

2. The Two Stage Photo Company has a division for each stage of photo-processing. There is no external market for stage 1's output. For a fixed quantity of photoprocessing, the transfer price should depend on

- **a)** whatever management wants.
- **b)** marginal costs at stage 1 only.
- **c)** marginal costs at each stage.
- **d)** average costs at stage 1 only.
- **e)** average costs at each stage.

CHAPTER 11 OLIGOPOLY

1. An industry is likely to maximize sales during which stage of industry development?

- **a)** Introduction
- **b)** Growth
- **c)** Maturity
- **d)** Decline
- **e)** Termination

2. In the model of oligopoly, there

- **a)** are many firms producing differentiated products.
- **b)** is one firm producing undifferentiated products.
- **c)** are a few firms producing differentiated or undifferentiated products.
- **d)** are many firms producing undifferentiated products.
- **e)** is one firm producing a highly differentiated product.

3. Two firms (A and B) have marginal costs MC_A and MC_B, marginal revenues MR_A and MR_B, and market marginal revenue MR. If both firms produce as a cartel, they should produce so that

- **a)** $MC_A = MC_B = MR$.
- **b)** $MC_A = MR_A$ and $MC_B = MC_B$.
- **c)** $MC_A + MC_B = MR$.
- **d)** $MC_A + MC_B = MR_A + MR_B$, not necessarily $MC_A = MR_A$.
- **e)** $MC_A = MC_B = MR_A + MR_B$.

4. The OPEC oil cartel lost its market power and world oil prices fell in the 1980s because

- **a)** OPEC expanded its membership to include all international producers of oil.
- **b)** world consumers boycotted OPEC oil.

- **c)** a limit pricing strategy was pursued by some members of the cartel.
- **d)** members began to cheat on cartel agreements.
- **e)** the United States refused to buy oil from OPEC.

5. Cartels can only exist

- **a)** in oligopoly markets.
- **b)** when products are homogeneous.
- **c)** when products are not homogeneous.
- **d)** in countries where they are legal.
- **e)** when demand curves are perfectly inelastic.

6. What is the advantage to a particular firm of cheating on an otherwise effective cartel?

- **a)** The industry can then act like a monopoly.
- **b)** It decreases risk.
- **c)** It enhances credibility.
- **d)** It always pays in the short run and may pay in the long run.
- **e)** It always pays in the long run and may pay in the short run.

7. The price leadership model is most appropriate when a market is

- **a)** perfectly competitive.
- **b)** monopolistic.
- **c)** monopolistic competitive.
- **d)** oligopolistic.
- **e)** any of the above.

8. According to recent research, which strategies seem to pay off most for firms interested in maximizing their profitability?

- **a)** High quality and low prices
- **b)** High quality and economies of scale in production
- **c)** Economies of scale in production and low prices
- **d)** Extensive advertising and high quality
- **e)** Extensive advertising and high prices

CHAPTER 12 GAME THEORY

1. A player in a game theoretic setting is

- **a)** anyone working for a firm that is operating strategically.
- **b)** a decision-making entity at a firm involved in a strategic game.
- **c)** a firm that is operating as a perfect competitor.
- **d)** a monopolist who produces a unique product with no close substitutes.
- **e)** a stockholder at a firm involved in a strategic game.

2. If a firm has a dominant strategy,

- **a)** its optimal strategy depends on the play of rivals.
- **b)** its optimal strategy is always the same, even if payoffs change.
- **c)** it is determined by the behavior of only one key rival.
- **d)** it receives the same profits regardless of the strategy of rivals.
- **e)** its optimal strategy is independent of the play of rivals.

3. Strategic foresight is the ability to make decisions today that are rational based on

- **a)** complete uncertainty about the future.
- **b)** our best information about what will happen in the future.
- **c)** what we know only about behavior in the past.
- **d)** information that we have only about our own behavior in the past.
- **e)** incorrect information about the past.

4. A most-favored-customer clause

- **a)** is a commitment but not a threat.
- **b)** is a threat but not a commitment.
- **c)** is both a threat and a commitment.
- **d)** is neither a threat nor a commitment.
- **e)** could be either a threat or a commitment depending on the terms.

5. Useful strategies to deter entry include

- **a)** increasing advertising.
- **b)** increasing prices.
- **c)** decreasing capacity.
- **d)** increasing capacity.
- **e)** a and d.

ANSWERS

CH 6	CH 7	CH 8	CH 9	CH 10	CH11	CH12
1. a	1. d	1. c	1. e	1. c	1. c	1. b
2. e	2. d	2. b	2. b	2. b	2. c	2. e
3. e	3. b	3. d	3. d		3. a	3. b
4. c	4. a	4. b	4. c		4. d	4. c
5. b	5. a		5. a		5. a	5. e
6. c	6. b				6. d	
7. a	7. d				7. d	
8. c	8. a				8. b	
9. e	9. c					
10. e						