MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Refer to Figure 5.1, which shows a family of average cost curves. The average variable cost at a given level of output is represented by:
   A) the vertical sum of curve 1 and curve 3 at a given level of output.
   B) the vertical sum of curve 1 and curve 2 at a given level of output.
   C) the vertical distance between curve 1 and curve 3 at a given level of output.
   D) the vertical distance between curve 1 and curve 2 at a given level of output.

2) Refer to Figure 5.1, which shows a family of average cost curves. The average total cost curve is represented by:
   A) curve 1.  B) curve 2.
   C) curve 3.  D) The vertical sum of curve 1 and curve 2.

3) Recall the application on “The Production Cost of an iPod Nano.” In the application the costs are listed as, flash memory $54, other electronic components $15, other materials and parts $21 and assembly $8. Each listed cost is
   A) a fixed cost.  B) a sunk cost.  C) an explicit cost.  D) an implicit cost.
4) Total cost of production is the sum of total variable cost and total fixed cost. If the total fixed cost alone decreases,
   A) the average variable cost curve shifts downward at all output levels.
   B) the marginal cost curve shifts downward at all output levels.
   C) the vertical distance between the average total cost curve and the average variable cost curve decreases at all output levels.
   D) the average total cost curve shifts upward at all output levels.

5) A firm scaled down its operation by reducing all inputs by 50% and experienced a more-than-50% decrease in output. If all input prices remain unchanged, the firm’s long-run average cost exhibits:
   A) economies of scale at the current output level.
   B) diseconomies of scale at the current output level.
   C) a constant long-run average cost at the current output level.
   D) diminishing marginal returns at the current output level.

6) Recall the application on "The Average Cost of Producing Airplanes." The costs of labor and materials used to produce the components and then assemble the aircraft are:
   A) implicit costs. B) nominal costs. C) variable costs. D) fixed costs.

7) Suppose that your firm’s marginal cost of producing a pencil is 5 cents and the average cost of producing a pencil is 7 cents. If your firm is interested in minimizing average total costs, what should your firm do?
   A) Maintain production at the current level. B) Look for ways to increase fixed costs.
   C) Increase production. D) Decrease production.

8) In the short run, the marginal cost of producing the first unit of output is $50, the marginal cost of the second unit of output is $20, and the marginal cost of producing the third unit of output is $16. The firm’s total cost of producing three units of output is:
   A) $48.
   B) $16.
   C) $86.
   D) Cannot be determined from the information provided.
9) Figure 6.6 shows the short-run and long-run effects of an increase in demand of an industry. The market is in equilibrium at point A, where 100 identical firms produce 6 units of a product per hour. If the market demand curve shifts to the right, what will happen to the number of firms in the industry at point B?

A) It decreases.  
B) It increases.  
C) It remains the same.  
D) Either A or B or C.

10) For the perfectly competitive firm marginal revenue is equal to:

A) the change in total revenue from selling one more unit of a good.  
B) the change in average revenue from selling one more unit of a good.  
C) the number of units sold times the price of the good.  
D) all of the above.
11) Figure 6.1 shows the cost structure of a firm in a perfectly competitive market. If the market price is $40 and the firm is currently producing the profit maximizing output level, its total fixed cost is:
A) $2,800.  B) $5,200.  C) $7,200.  D) $9,000.

12) In a perfectly competitive market, if price is less than average total cost, but greater than average variable cost at the level of output where marginal cost equals marginal revenue:
   A) the firm is earning negative economic profit.
   B) the firm should shut down.
   C) the firm is earning positive economic profit.
   D) we cannot determine whether the firm is earning positive or negative profits.

13) The relationship between the market price of a good and the quantity supplied of that good by a firm in the short run is the firm's:
   A) total revenue minus total cost schedule.  B) short-run supply curve.
   C) average cost schedule.  D) optimal production level.

14) Which of the following is the best example of a perfectly competitive firm?
   A) DeBeers Diamond Company
   B) Jones's wheat farm in eastern Washington
   C) your local cable T.V. company

15) Alex’s Furniture Mart produces and sells tables in a perfectly competitive market. When Alex’s Furniture Mart produces and sells 250 tables, its marginal cost is equal to $200, and AVC is rising. If the market price of tables is equal to $150, Alex’s Furniture Mart should:
   A) increase its level of table production.  B) continue producing 250 tables.
   C) decrease its level of table production.  D) raise the price of its tables.
16) Figure 7.2 shows a monopolist's demand curve. The marginal revenue from selling the third unit is:

A) $10.  
B) $8.  
C) $6.  
D) 44.

17) Which of the following best characterizes the tradeoff faced by a monopolist when deciding what quantity to produce?

A) The firm can increase its output, but needs to lower its price for only the marginal unit of output.

B) The firm gets less revenue from new customers by increasing output, but gets more revenue from existing customers given that it lowered its price.

C) The firm gets more revenue from new customers by increasing output, but gets less revenue from existing customers given that it lowered its price.

D) The firm can increase its output, but to do so it must charge a higher price to all customers.

18) Table 7.2 contains price, demand, and cost data for the Capri Theater, the only first-run movie theater in a small town. Should the firm adopt the single price policy or the student discount policy?

A) the single price policy because it is more profitable than price discrimination for this firm

B) the single price policy because price discrimination would not be legal for this firm

C) the student discount policy because it is more profitable than the single price policy

D) the single price policy because the firm does not meet the three conditions necessary to engage in price discrimination
19) In order to practice price discrimination a firm must:
   A) be able to divide consumers into groups with different demands for their product.
   B) avoid detection by the government.
   C) advertise their product.
   D) have a homogeneous product.

20) Suppose that Figure 7.4 shows an industry’s market demand, its marginal revenue, and the production costs of a representative firm. If the industry was perfectly competitive, a representative firm would maximize its profit by producing a quantity of _______ and by charging a price of _______.
   A) 35; $65
   B) 50; $50
   C) 70; $30
   D) There is not sufficient information.

21) Which of the following is the least likely example of asymmetric information?
   A) a job applicant and a prospective employer
   B) King Solomon and two women who claim to be the mother of a baby
   C) a retailer of used books and prospective customers
   D) an auto mechanic and a transient customer

22) Thin markets can be revived by:
   A) warranties and repair guarantees.
   B) guaranteed price matching.
   C) imposing price ceilings.
   D) increasing the number of sellers in the market.
23) Figure 9.1 represents the market for used bikes. Suppose buyers are willing to pay $200 for a plum (high-quality) used bike and $50 for a lemon (low-quality) used bike. If buyers have pessimistic expectations about the used bikes in the market, what number of used bikes sold will actually be lemons (low quality)?

A) 8  B) 16  C) 22  D) 12

24) Moral hazard occurs when a person’s behavior changes in a way that:

A) is immoral.
B) is dangerous.
C) causes positive externalities.
D) increases the likelihood of a bad outcome for someone else.

25) People who complete college provide a signal to employers about their skills and thus face better employment opportunities than equally skilled high school graduates. This is called:

A) the discriminatory effect of a college education.
B) the learning effect of a college education.
C) the signaling effect of a college education.
D) none of the above

26) Under Temporary Aid to Needy Families, work activities are defined to include:

A) community service.  B) vocational training.
C) on-the-job training.  D) all of the above.
27) Given their skills and knowledge, mine workers earn higher incomes than they would in another occupation. This is partly because:
   A) few people have skills and knowledge required for mining works.
   B) mine workers take the higher risk of injury or death.
   C) the skills required of mine workers can be acquired through costly training.
   D) All of the above

28) Refer to Figure 5.1, which shows a family of average cost curves. The average fixed cost at a given level of output is represented by:
   A) the vertical distance between curve 1 and curve 2 at a given level of output.
   B) the vertical sum of curve 1 and curve 3 at a given level of output.
   C) the vertical distance between curve 1 and curve 3 at a given level of output.
   D) the vertical sum of curve 1 and curve 2 at a given level of output.

29) Under which conditions might diseconomies of scale result?
   A) decreasing costs of inputs
   B) improved coordination brought about by bureaucracy
   C) increasing output prices
   D) none of the above

30) In the short run:
   A) some factors of production are variable, while at least one factor of production is fixed.
   B) all factors of production are variable.
   C) all factors of production are fixed.
   D) None of the above are correct.
31) A perfectly competitive market is one where:
   A) each firm sells at the government mandated price.
   B) each firm within the market must sell its good at the market price.
   C) a firm can affect market price by increasing output.
   D) each firm controls the price charged for its product by changing the quantity they produce.

32) Recall the application on "Paying for a Cold Soft Drink on a Hot Day." When the Coca-Cola Company developed new vending machines that could sense heat and charge a higher price, it was:
   A) violating a patent.
   B) segmenting its market into consumers with different demand elasticities.
   C) preventing resale of its product.
   D) all of the above.

33) Figure 7.5 shows prices, demands, and cost data for the only restaurant in a small town. Compared to the profit under the single price policy, how much additional profit does the restaurant earn under the senior discount policy of a $7 senior price and a $10 non-senior price?
   A) $920.  
   B) $580.  
   C) $300.  
   D) $280.
### Table 9.4

<table>
<thead>
<tr>
<th>Sulfur Dioxide Discharged (Tons)</th>
<th>Firm A</th>
<th>Firm B</th>
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<tr>
<td>10</td>
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<td>6</td>
<td>28,000</td>
<td>37,000</td>
</tr>
</tbody>
</table>

34) Table 9.4 shows the production cost for two utilities at different levels of sulfur dioxide emissions. Assume that the government issued 8 marketable pollution permits to each firm. If the two firms agree to swap one permit and split the difference between the willingness to pay and willingness to accept, what is the price of a permit?

- A) $4,500
- B) $5,500
- C) $7,250
- D) $9,750

35) If labor productivity increases, the marginal revenue product curve will shift _______ and the profit maximizing quantity of labor demanded will _______.

- A) down; increase
- B) up; decrease
- C) up; increase
- D) down; decrease

36) You observe that at your current production of rutabaga, the average total cost of producing rutabaga is $1 and the marginal cost of producing rutabaga is $2. What should always happen if you increase rutabaga production?

- A) Average total cost will rise.
- B) Marginal cost will fall.
- C) Average total cost will fall.
- D) Both A and B are correct.
Figure 6.4

37) Figure 6.4 shows the cost structure of a firm in a perfectly competitive market. If the market price is $6 and none of its fixed cost is sunk, the firm will:

A) be better off shutting down in the short run and waiting until the market price rises above $10.
B) be better off producing 150 units than shutting down.
C) be better off leaving the market and using the resources for other production activities.
D) none of the above
<table>
<thead>
<tr>
<th>Price</th>
<th>Quantity</th>
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<tbody>
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<td>9</td>
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</tbody>
</table>

Table 7.1

38) Refer to Table 7.1, which shows the relationship between the price that Gladys charges for a product and the quantity of that product that Gladys sells. The marginal revenue that Gladys receives from selling the fifth unit of output is:
   A) $5, because that is the quantity that Gladys sells.
   B) $5, because that is the price per unit of output that Gladys receives.
   C) $1, because Gladys earns $1 more in revenues by increasing her output to five units from four units.
   D) $25, because Gladys sells five unit of output at a price of $5.

39) When sellers have more information about the quality of a good than buyers do, a relatively large share of the goods in the market will be low-quality goods. This is the _______ problem.
   A) moral hazard
   B) law of diminishing returns
   C) adverse selection
   D) free-rider

40) The long-run labor demand curve is:
   A) perfectly elastic (horizontal).
   B) more elastic than the short-run labor demand curve.
   C) either more or less elastic than the short-run labor demand curve.
   D) less elastic than the short-run labor demand curve.
41) Figure 5.2 presents a firm’s marginal, average total, average fixed, and average variable cost curves. The firm faces fixed costs of:


42) Recall the application on "The World Wide Supply of Sugar." Since as the world price of sugar rises, higher cost sugar producers like the European Union and the United States are able to profitably produce sugar, sugar is an industry with:

A) decreasing costs  B) fixed costs.
C) constant costs.  D) increasing costs.

43) You are the chief of police of Los Angeles, and you have captured a terrorist who knows exactly where a nuclear bomb is located in your city. The bomb will detonate in the next 24 hours. This terrorist is the only person in the world who knows where the bomb is. You put a gun to her head, and say to her, "Tell me the location of the bomb, or I will kill you." She is perfectly rational and so are you.

A) She knows you are bluffing, and thus she has nothing to worry about.
B) She won't tell you anything because she is afraid of dying and thus too nervous to speak.
C) She will tell you the information if you are kind enough to her.
D) She will tell you the information if you act crazy enough.

44) We play a game of matching pennies. If we both put up heads, then I get $1 and you lose $1. If we both put up tails, then I get $2 and you lose $2. Otherwise, I lose $1 and you get $1.

A) This game has no equilibrium.
B) You should play heads 3/5 of the time.
C) It is a dominant strategy for you to play heads.
D) You should play heads 1/2 of the time.
45) The row player has a dominant strategy if:
   A) there is a row in which each element is the largest in its column
   B) she can force the column player to lose money
   C) only when the game has an equilibrium
   D) if she looks ahead and reasons back

46) You like to fish, and I like playing basketball. We are friends and like to be together. If we are apart, we both get $0. If we both go fishing, then you get $10 and I get $5. If we both play basketball, then you get $5 and I get $10.
   A) It is an equilibrium if we both go fishing.
   B) It is an equilibrium if you go fishing with probability 1/2 and so do I.
   C) It is an equilibrium if we both play basketball.
   D) Both A and C are true

47) You and I have to split a magic cake. We have two rounds at most to make a deal. If we disagree after two rounds, the outside arbitrator comes and destroys the cake. The cake is magic because it doubles in size after one round. You move first.
   A) You should ask for the whole cake, and I will agree right away
   B) You should give me the whole cake and I will agree right away
   C) No matter what you offer me in the first round, I will refuse your offer.
   D) There is no equilibrium in this problem

48) You envy my allocation if you prefer what I have to what you have. An allocation is envy-free if no one envies another person. A Pareto optimal allocation that is envy-free is called fair. There are two people in the economy: you and me. You are a vegetarian, and I am an omnivore. There are two pounds of meat and two carrots in the economy. You get one carrot, and I get one carrot and two pounds of meat.
   A) This allocation is fair
   B) This allocation is not Pareto optimal
   C) This allocation is not fair
   D) None of the above

49) If a monopolist charges a price above marginal cost, then the allocations are:
   A) Pareto optimal because the monopolist is cost efficient
   B) Not Pareto optimal because some people are paying high prices and others low prices
   C) Not Pareto optimal because there are some consumers who would be willing to buy from the monopolist if they could promise not to resell the good
   D) None of the above

50) Pareto optimal allocations are:
   A) efficient
   B) kind
   C) unique
   D) possibly wasteful
Answer Key
Testname: MID2_ECON_201_07

1) C
2) A
3) C
4) C
5) A
6) C
7) C
8) D
9) C
10) A
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