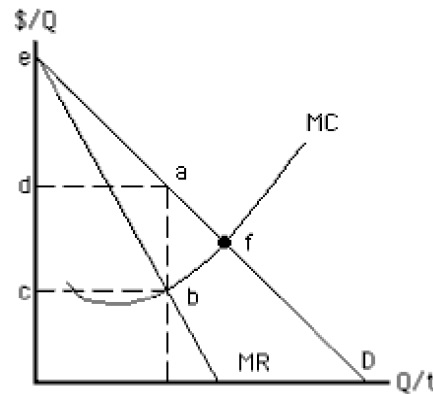


- \_\_\_\_\_ 1. Marginal revenue is defined as
- total revenue divided by quantity
  - total revenue minus total cost
  - the change in total revenue divided by the change in quantity
  - the change in total revenue divided by quantity
  - the change in total revenue
- \_\_\_\_\_ 2. Patents stimulate investment
- by giving inventors an incentive to incur up-front costs of developing new products
  - by giving tax breaks to inventors
  - by guaranteeing a profit from new products
  - by lowering interest rates
- \_\_\_\_\_ 3. If a monopolist must lower the price on all units in order to sell an additional unit,
- it is impossible for the monopolist to maximize profit
  - the monopolist will always lose profit when it increases quantity
  - the monopolist will always lose revenue when it increases quantity
  - price will always be greater than marginal revenue
- \_\_\_\_\_ 4. Barriers to entry
- prevent monopolies from earning profit in the long run
  - prevent monopolies from earning profit in the short run
  - may allow monopolies to earn profit in the long run
  - prevent government from regulating a monopoly
- \_\_\_\_\_ 5. The practice of charging different prices to different consumers of the same product is called
- monopolistic pricing
  - unit pricing
  - price discrimination
  - elasticity pricing
  - marginal cost pricing
- \_\_\_\_\_ 6. A monopolist that engages in perfect price discrimination
- divides all buyers into two mutually exclusive groups
  - refuses to sell to consumers of certain races, sexes, or creeds
  - charges the same price for every unit sold
  - is potentially able to obtain all of the consumer's surplus
- \_\_\_\_\_ 7. Monopolistic competition is different from perfect competition because monopolistic competitors produce
- a homogeneous product
  - a homogeneous but unique product
  - identical products
  - differentiated products
- \_\_\_\_\_ 8. A monopolistic competitor's demand curve is
- perfectly elastic
  - less elastic than a monopolist's or oligopolist's but more elastic than a perfect competitor's
  - as elastic as an oligopolist's
  - more elastic than a monopolist's or oligopolist's but less elastic than a perfect competitor's
- \_\_\_\_\_ 9. Economic profit is
- $P ( ATC - AVC )$
  - $Q ( ATC - AVC )$
  - $Q ( P - ATC )$
  - $Q ( P - AVC )$
- \_\_\_\_\_ 10. In the long run in monopolistic competition, the demand curve facing the typical firm
- is perfectly elastic
  - slopes upward
  - is tangent to the firm's average total cost curve
  - is tangent to the firm's AVC curve

- \_\_\_\_\_ 11. In long-run equilibrium, a monopolistically competitive firm will produce
- at the minimum average cost
  - at full capacity
  - along the downward-sloping portion of its ATC curve
  - along the upward-sloping portion of its ATC curve
- \_\_\_\_\_ 12. Compared to a firm in perfect competition, the monopolistically competitive firm tends to
- produce less and charge a higher price
  - produce less and charge a lower price
  - produce more and charge a lower price
  - produce more and charge a higher price
- \_\_\_\_\_ 13. Which of the following is unique to oligopoly among all the market structures?
- product differentiation
  - profit maximization
  - mutual interdependence
  - advertising
- \_\_\_\_\_ 14. We see permanent price differentials in land because
- the demand for land is high
  - land has few uses
  - location is the inherent quality that often determines its value
  - real estate brokers are inefficient
- \_\_\_\_\_ 15. A firm will purchase additional units of a resource as long as each unit's
- marginal revenue product is greater than zero
  - marginal revenue product equals the product price
  - marginal revenue product is greater than or equal to its marginal resource cost
  - marginal revenue product is less than its marginal resource cost
- \_\_\_\_\_ 16. A firm's marginal resource cost curve is
- horizontal only if the firm is a price taker in the product market
  - positively sloped only if the firm is a price taker in the resource market
  - vertical only if the firm is a price taker in the product market
  - positively sloped and above the resource supply curve when the resource market is not a price-taker market
- \_\_\_\_\_ 17. If two resources, such as labor and farm machinery, are complementary,
- one can be used in place of the other
  - an increase in the price of one will increase the demand for the other
  - an increase in the price of one will increase the supply of the other
  - a decrease in the price of one will increase the demand for the other
- \_\_\_\_\_ 18. Nonmarket work includes time spent
- producing goods and services for your employer
  - pursuing hobbies and crafts
  - engaging in strenuous physical exercise to reduce your weight
  - producing your own goods and services
- \_\_\_\_\_ 19. An increase in the cost of training to acquire a skill, which must be paid by the worker,
- increases both the supply of and demand for labor in that market
  - decreases both the supply of and demand for labor in that market
  - increases the supply of labor and decreases the demand for labor in that market
  - decreases the supply of labor only in that market
- \_\_\_\_\_ 20. Unions whose membership includes all workers with a particular skill or trade are known as
- craft unions
  - exclusive unions
  - national unions
  - regional unions
  - industrial unions

- \_\_\_\_\_ 21. Of the several ways that the United Auto Workers can increase the wages of its members,
- none can also increase employment
  - only direct negotiation of a wage above the competitive level can also increase employment
  - only restricting the supply of labor can also increase employment
  - only increasing the demand for labor can also increase employment
  - only binding arbitration can also increase employment
- \_\_\_\_\_ 22. Natural monopolies form when
- small firms merge to form larger firms
  - one firm has control over the entire supply of a basic input required to produce the product
  - one firm's monopoly position is created and enforced by the government
  - one firm receives patent protection for certain basic production processes
  - long-run average cost declines as a firm expands output

- \_\_\_\_\_ 23. The deadweight loss to consumers from a monopolist that does not price discriminate is represented by area
- ecf
  - eda
  - dacb
  - dafc
  - abf



- \_\_\_\_\_ 24. Because of easy entry, monopolistically competitive firms will
- produce at the lowest average total cost
  - charge a price equal to marginal cost
  - earn no economic profit in the long run
  - take advantage of all economies of scale

- \_\_\_\_\_ 25. Game theory focuses on
- strategic behavior among interdependent firms
  - professional athletic events
  - competition between the players in board games
  - competition between those in the political arena and those in the market place
  - the interaction between firms in a competitive industry and those in a non-competitive industry

**Exhibit 9-15**

- \_\_\_\_\_ 26. The resource market is different from the product market because
- in the resource market, firms don't maximize profit
  - in the resource market, households don't maximize utility
  - in the resource market, firms are demanders and households are suppliers
  - supply and demand do not apply in the resource market
  - supply and demand do not apply in the product market

- \_\_\_\_\_ 27. If all of the returns to a resource are in the form of economic rent,
- the demand curve for that resource must be horizontal
  - the demand curve for that resource must be vertical
  - the supply curve of that resource must be horizontal
  - the supply curve of that resource must be vertical
  - the demand curve for that resource must be perfectly elastic

- \_\_\_\_\_ 28. An increase in the demand for automobiles will increase the demand for labor used to produce the automobiles due to
- an increase in the marginal revenue product of labor
  - a decrease in the marginal revenue product of labor
  - an increase in the marginal revenue product of automobiles
  - a decrease in the marginal revenue product of automobiles
  - a decrease in the price of automobiles

- \_\_\_\_\_ 29. The change in total cost of production that results from a change in the amount of a resource used is
- average resource cost
  - marginal resource cost
  - marginal product
  - marginal revenue product

- \_\_\_\_\_ 30. If the substitution effect is always greater than the income effect, then an individual's labor supply curve will
- bend backward
  - always have a positive slope
  - always have a negative slope
  - be vertical
  - be horizontal
- \_\_\_\_\_ 31. When industrial unions negotiate with an entire industry, wage gains come at the cost of
- longer working hours
  - worse working conditions
  - reduced total employment
  - worse products
- \_\_\_\_\_ 32. Which of the following would *not* shift the demand curve for union labor to the right?
- increased demand for union-made goods
  - increased labor productivity by lowering quit rates
  - increased supply of products that compete with union-made products
  - increased labor productivity through better labor-management relations
  - appeals to consumers to buy only union-made products
- \_\_\_\_\_ 33. Saving is necessary for production because
- more roundabout production is better
  - less roundabout production is better
  - production takes time
  - production is expensive
  - production requires labor
- \_\_\_\_\_ 34. Increased saving today means
- more consumption today and in the future
  - less consumption today and in the future
  - more consumption today and less in the future
  - less consumption today and more in the future
  - more income today, but the net effect of increased income on the balance between consumption and saving cannot be determined in advance
- \_\_\_\_\_ 35. A marginal revenue product curve shows the change in
- total revenue caused by a one-unit change in output, other things constant
  - total revenue caused by a one-unit change in an input, other things constant
  - total product caused by a one-unit change in output, other things constant
  - total product caused by a one-unit change in an input, other things constant
  - total revenue product caused by a one-unit change in the price of the output, other things constant
- \_\_\_\_\_ 36. All types of capital
- are forms of resources that can be used in future production
  - require a physical existence
  - earn an economic rent
  - yield profits for their owners
  - require obtaining more education and job skills
- \_\_\_\_\_ 37. If the interest rate increases from 3 percent to 4 percent, other things constant, individuals will want to
- save and borrow more
  - save and borrow less
  - save more and borrow less
  - save less and borrow more
  - borrow more but save the same amount
- \_\_\_\_\_ 38. If a change in technology improves the marginal productivity of capital, the
- supply of capital will increase
  - supply of capital will decrease
  - demand for loanable funds will increase
  - demand for loanable funds will decrease
  - supply of loanable funds will increase

**Exhibit 13-4**

Personal computers	Marginal revenue product	Total resource cost	Marginal resource cost of 20 machines	Marginal rate of return	Marginal rate of interest
20	-	\$5,000	-	-	
40	\$1,200	10,000	\$5,000	24%	9%
60	960	15,000	5,000		9%
80	720	20,000	5,000		9%
100	480	25,000	5,000		9%
120	240	30,000	5,000		9%

39. Exhibit 13-4 shows data gathered by Memo Co. as it prepares to purchase personal computers for its sales offices. Assume that the personal computers are expected to last indefinitely, that operating expenses are negligible, and that the price of Memo's product is expected to remain constant in the future. Given the rate of interest, how many personal computers will Memo Co. select?

- a. 40
- b. 60
- c. 80
- d. 100
- e. 120

40. If you hold a bond at a time when market interest rates are increasing, you will find that the bond's value has

- a. remained the same since the interest payment remains constant
- b. increased
- c. increased only if the market interest rate exceeds the interest rate payable on the bond
- d. declined because you will receive a lower price when you sell the bond
- e. increased only if the interest payable on the bond exceeds the market interest rate

41. The present value of \$200 to be paid to you at the end of two years, if the market interest rate is 5 percent, is

- a. \$181.41
- b. \$190.00
- c. \$210.00
- d. \$225.78
- e. cannot be determined from the information given

42. One reason investors may prefer bonds over stocks is

- a. potential profits are larger
- b. bond prices never vary
- c. bondholders get paid before stockholders
- d. owning bonds implies owning a part of the company
- e. interest rates do not affect the value of bonds

43. The market value of a bond is \_\_\_\_\_ related to the rate of interest.

- a. directly
- b. inversely
- c. exactly
- d. sometimes
- e. never

44. If the production of a sofa requires the purchase of 3 types of inputs and the production of a harp requires the purchase of 30 types of inputs,

- a. the harp-producing firm will buy the sofa-producing firm
- b. the sofa-producing firm will buy the harp-producing firm
- c. harp production is more likely to be done by firms than sofa production is
- d. sofa production is more likely to be done by firms than harp production is

45. According to Coase, firms emerge when

- a. transaction costs in the market are less than the cost of hierarchical control
- b. transaction costs in the market are more than the cost of hierarchical control
- c. prices in the market are less than the cost of hierarchical control
- d. prices in the market are more than the cost of hierarchical control

46. Ronald Coase's insight regarding the firm was that

- a. firms tend to be more profitable when economies of scale are greater
- b. uncertainty and information are the keys to perfect competition
- c. perfectly competitive firms tend to displace monopolies
- d. economic activity is best understood in terms of the transaction costs of exchange

- \_\_\_\_\_ 47. The McDonald's restaurants in Russia grow their own potatoes to guarantee that they are grown correctly. Growing potatoes is very different from running a fast-food restaurant. One could say of McDonald's decision to grow its own potatoes for the Russian franchise that
- the bounded rationality criterion outweighs the need for quality control
  - the bounded rationality criterion is outweighed by the need for quality control
  - both bounded rationality and the need for quality control are factors that make it rational for McDonald's to grow its own potatoes
  - growing potatoes is irrational
  - there must not be many potato suppliers in Russia
- \_\_\_\_\_ 48. When a firm is operating at its minimum efficient scale, its
- short-run average total cost of production is minimized
  - long-run marginal cost of production is minimized
  - long-run average cost of production is minimized
  - long-run profit is maximized
- \_\_\_\_\_ 49. One problem with outsourcing, which is likely to restrict its use, is
- the sharp decrease in cost from specialization in production
  - loss of firm control over design, production cost and quality
  - the low prices charged by supplier firms
  - the desire of a firm to focus on what it does best (i.e., its core competency)
- \_\_\_\_\_ 50. Publications such as *Consumer Reports* magazine
- increase the optimal amount of information gathered
  - reduce the optimal amount of information gathered
  - reduce the amount of common knowledge
  - raise the marginal benefit of information curve
- \_\_\_\_\_ 51. The winner's curse is more likely
- when there is only one bidder
  - when demand for the good being auctioned is increasing
  - when the value of the good being auctioned is common knowledge
  - when the value of the good being auctioned is uncertain
  - when the marginal cost of information is low
- \_\_\_\_\_ 52. One result of asymmetric information in the market for used cars is that
- few used cars are offered on the market
  - few lemons are sold
  - more lemons may be offered for sale than good cars
  - buyers benefit at the expense of sellers
  - good cars will sell for more than they are worth
- \_\_\_\_\_ 53. Bad risks may be the most willing to pay high interest rates and thus get loans. This describes an example of
- symmetrical information
  - adverse selection
  - natural selection
  - moral hazard
  - the winner's curse
- \_\_\_\_\_ 54. If an employment situation is characterized by adverse selection,
- there are too many applicants for each job
  - there are too few applicants for each job
  - there are exactly the right number of applicants for each job
  - there is an excess supply of overqualified applicants for each job
  - there is an excess supply of underqualified applicants for each job
- \_\_\_\_\_ 55. A signal is
- a proxy measure of job conditions
  - a proxy measure of a job applicant's skills
  - used by employers to indicate that a job interview is over
  - an indication of an excess supply of labor

- \_\_\_\_\_ 56. A marginal revenue product curve shows the change in
- total revenue caused by a one-unit change in output, other things constant
  - total revenue caused by a one-unit change in an input, other things constant
  - total product caused by a one-unit change in output, other things constant
  - total product caused by a one-unit change in an input, other things constant
- \_\_\_\_\_ 57. By paying a higher-than-market wage, a firm can avoid the problem of
- reputation as hostage
  - moral hazard
  - the winner's curse
  - adverse selection
- \_\_\_\_\_ 58. If a regulator sets the price equal to the natural monopolist's marginal cost,
- the monopoly will experience a loss
  - the monopoly will earn a profit
  - the monopoly will earn zero profit
  - consumers will be worse off than they would be if the firm's profit maximization activities were unregulated
- \_\_\_\_\_ 59. A good that is both rival and exclusive is called
- a private good
  - a public good
  - a quasi-private good
  - an external good
  - an open access good
- \_\_\_\_\_ 60. Generally, people are more satisfied with private market outcomes than with public voting outcomes because
- each consumer in the private market can choose the quantity he or she desires
  - most people are near the median
  - the prices are lower
  - markets are involuntary
  - there are too many choices to make in the public sector
- \_\_\_\_\_ 61. The term underground economy refers to
- the coal-mining industry
  - all ore mining
  - the subway system
  - purely illegal activity
  - market activity not reported to the government
- \_\_\_\_\_ 62. A tax on productive activity tends to
- increase formal market activity because it decreases prices
  - decrease formal market activity because it increases work incentives
  - decrease formal market activity because it lowers the return on such activity
  - decrease activity in the underground economy because people are afraid of being connected with tax fraud
  - increase activity in the underground economy because people are afraid of being connected with tax fraud
- \_\_\_\_\_ 63. When consumption of a good or service produces costs that are not reflected in the market price for the good, this is known as a(n)
- positive externality
  - negative externality
  - nonexcludable resource
  - public good
  - non-renewable resource
- \_\_\_\_\_ 64. When a resource is an open-access resource,
- each individual in the society owns it
  - the group owns it so the group will have an incentive to protect and conserve the resource
  - no one owns it which results in there being enough of the good for everyone
  - no one owns it which means that no one has an incentive to protect or conserve this resource
  - some nonprofit agency owns it

- \_\_\_\_\_ 65. Economists view pollution as an economic problem that arises because
- private enterprise always minimizes the amount of pollution produced
  - profitable firms rarely pollute
  - as the economy grows, the level of pollution declines
  - firms and individuals that pollute do not pay the full social cost of producing their output
  - pollution costs are borne by the consumer
- \_\_\_\_\_ 66. The optimal level of pollution is
- zero
  - the level at which the marginal social cost of air quality equals the marginal social benefit
  - the level at which the average social cost of air quality equals the average social benefit
  - the level at which the total social cost of air quality equals the total social benefit
  - the level at which the marginal social cost of air quality is minimized
- \_\_\_\_\_ 67. Which of the following is most likely to happen to open-access wildlife resources?
- They will be used efficiently.
  - They will not be used at all.
  - It will be unprofitable to use them.
  - They will be used but will generate no profit.
  - They will become extinct.
- \_\_\_\_\_ 68. Education confers positive externalities because
- some education is done outside the market (i.e., in public schools)
  - curricula are regulated by the government, even in private schools
  - an educated person consuming education gains many benefits he or she did not expect when the process started
  - an educated person who has consumed education usually behaves in a way that benefits others
  - education gives benefits to individuals in excess of the costs they pay to get it
- \_\_\_\_\_ 69. Production that generates positive externalities tends to result in
- too much being produced
  - not enough being produced
  - unexpected costs that affect the level of output
  - increasing output over time
- \_\_\_\_\_ 70. The optimal level of pollution
- is zero
  - occurs where the total cost of pollution is equal to the total benefit of pollution
  - occurs when the level of pollution is not zero, but is below the threshold of perception
  - occurs where the marginal social benefit of preventing or cleaning up pollution is equal to the marginal social cost of achieving lower levels of pollution.
- \_\_\_\_\_ 71. If official U.S. poverty statistics included in-kind transfer payments,
- the poverty rate would be close to zero
  - the poverty rate would be lower
  - the government deficit would be lower
  - the inflation rate would be higher
  - the top 10 percent of those in the income distribution would be wealthier
- \_\_\_\_\_ 72. The official poverty definition in the U.S. is having an income that
- provides minimum biological needs
  - is less than three times the cost of a nutritionally adequate yet frugal diet
  - places the household in the bottom 20 percent of the income distribution
  - is less than the average U.S. welfare allowance
  - is approximately equal to the average household income of Canada
- \_\_\_\_\_ 73. Social Security was established in the
- 1930s to provide retirement income to those with a work history
  - 1930s to provide jobs for the unemployed
  - 1930s to provide health insurance
  - 1960s to provide retirement income to those with a work history
  - 1960s to provide health insurance



- \_\_\_\_\_ 74. Government redistribution programs have been most successful at reducing poverty among
- a. the working poor
  - b. the elderly
  - c. households headed by single mothers
  - d. the very young
- \_\_\_\_\_ 75. The market for pollution permits reflects
- a. the high cost of reducing pollution
  - b. the inability of government to reduce pollution
  - c. the Coase Theorem in action
  - d. the command-and-control approach to protecting the environment

The End !!