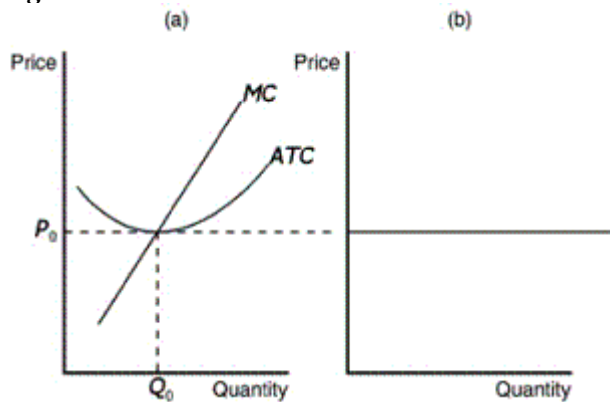


Practice Final Exam Questions**Multiple Choice**

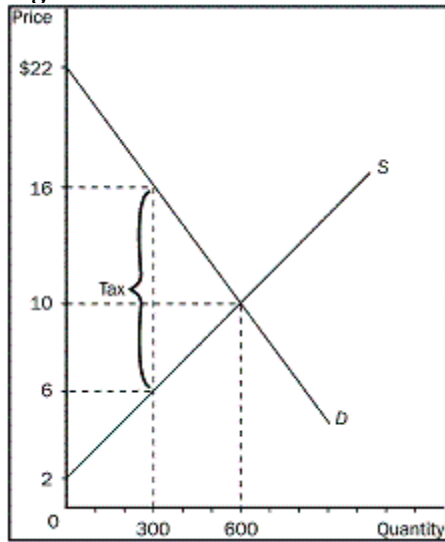
Identify the choice that best completes the statement or answers the question.

- _____ 1. A profit-maximizing firm in a competitive market is currently producing 100 units of output. It has average revenue of \$10, and its average total cost is \$8. What follows?
- The firm's average total cost curve intersects the marginal cost curve at an output level of more than 100 units.
 - The firm's average variable cost curve intersects the marginal cost curve at an output level of more than 100 units.
 - The firm's loss is \$200.
 - The firm's profit is \$200.
- _____ 2. In monopolistically competitive markets, what does the property of free entry and exit suggest?
- All firms earn zero economic profits in the long run.
 - Some firms will be forced to incur economic losses in the long run.
 - The market structure will eventually be characterized by perfect competition in the long run.
 - Some firms will be able to earn economic profits in the long run.
- _____ 3. George and Jerry are competitors in a local market. Each is trying to decide if it is better to advertise on TV, on radio, or not at all. If they both advertise on TV, each will earn a profit of \$3000. If they both advertise on radio, each will earn a profit of \$5000. If neither advertises at all, each will earn a profit of \$10 000. If one advertises on TV and the other advertises on radio, then the one advertising on TV will earn \$4000 and the other will earn \$2000. If one advertises on TV and the other does not advertise, then the one advertising on TV will earn \$8000 and the other will earn \$5000. If one advertises on radio and the other does not advertise, then the one advertising on radio will earn \$9000 and the other will earn \$6000. If both follow their dominant strategy, what will George do and how much will he earn?
- advertise on TV and earn \$3000
 - advertise on radio and earn \$5000
 - advertise on TV and earn \$8000
 - not advertise and earn \$10 000

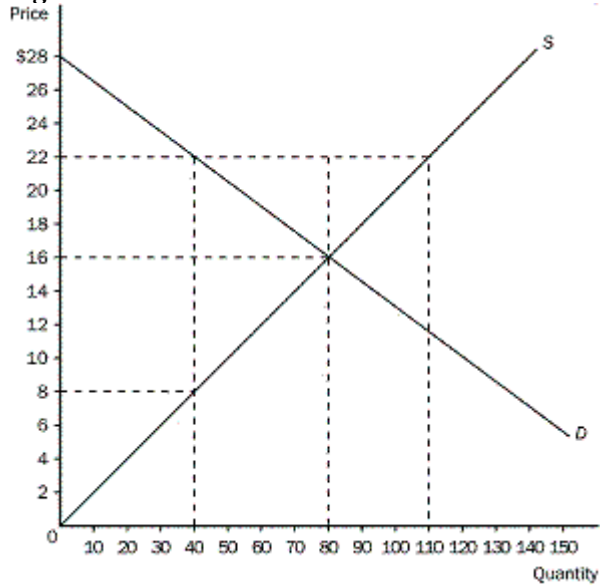
Figure 14-8



- _____ 4. Refer to Figure 14-8. If the figure in panel (a) reflects the long-run equilibrium of a profit-maximizing firm in a competitive market, what does the figure in panel (b) most likely reflect?
- perfectly inelastic long-run market supply
 - the product of the individual supply curves for all firms in the market
 - the idea that free entry and exit of firms in the market lead to only one market price in the long run
 - the fact that zero profits cannot be sustained in the long run
- _____ 5. A demand curve reflects each of the following EXCEPT what?
- the ability of buyers to obtain the quantity they desire
 - the highest price buyers are willing to pay for each quantity
 - the willingness to pay of all buyers in the market
 - the value each buyer in the market places on the good
- _____ 6. Assume that a tax is levied on a good and the government uses the funds to build statues of the Premiers of each of the provinces and territories. In this case, which of the following would NOT occur?
- a decrease in producer surplus to producers of the taxed good
 - a deadweight loss larger than the loss in both consumer and producer surplus
 - a decrease in consumer surplus to consumers of the taxed good
 - a probable decrease in the welfare of society that exceeds the deadweight loss from the tax

Figure 8-5

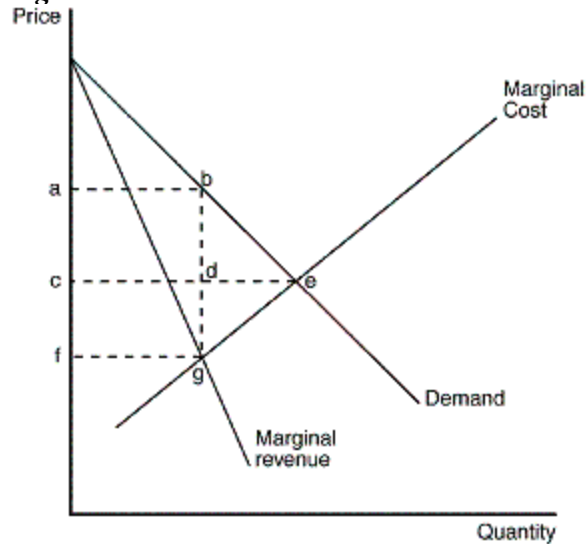
- _____ 7. Refer to Figure 8-5. If the tax is imposed on the buyer, what would producer surplus be?
- a. \$600
 - b. \$900
 - c. \$1200
 - d. \$1500
- _____ 8. Refer to Figure 8-5. Without the tax, what would consumer surplus in this market be?
- a. \$1500
 - b. \$2400
 - c. \$3000
 - d. \$3600

Figure 7-7

- _____ 9. Refer to Figure 7-7. If this market were currently at a quantity of 40, what would we know?
- Cost to sellers is equal to the value to buyers.
 - The value to buyers is greater than the cost to sellers.
 - Producer surplus would be greater than consumer surplus.
 - The cost to sellers is greater than the value to buyers.
- _____ 10. Refer to Figure 7-7. If the price decreases from \$22 to \$16, by how much would consumer surplus increase?
- \$120
 - \$360
 - \$480
 - \$600

The figure below depicts the demand, marginal revenue, and marginal cost curves of a profit-maximizing monopolist.

Figure 15-5



- _____ 11. Refer to Figure 15-5. Which of the following areas represents the deadweight loss due to monopoly pricing?
- triangle bde
 - triangle bge
 - rectangle acdb
 - rectangle cfgd
- _____ 12. A monopoly firm can sell 200 units of output for \$36.00 per unit. Alternatively, it can sell 201 units of output for \$35.80 per unit. What is the marginal revenue of the 201st unit of output?
- \$35.80
 - \$4.20
 - \$4.20
 - \$35.80
- _____ 13. In order to sell more of its product, what must a monopolist do?
- It must sell in international markets.
 - It must keep its price constant.
 - It must lower its price.
 - It must sell to the government.

Table 15-1

Quantity	Price	Total Revenue	Average Revenue	Marginal Revenue
1	\$35	\$35		
2		64	\$32	\$29
3	29			
4				17
5	23			11
6		120		
7	17			-1
8				-7
9		99	11	-13

- _____ 14. Refer to Table 15-1. What is the marginal revenue for the monopolist for the sixth unit sold?
- a. \$3
 - b. \$5
 - c. \$8
 - d. \$11
- _____ 15. Refer to Table 15-1. If the monopolist wants to maximize its revenue, how many units of its product should it sell?
- a. 4
 - b. 5
 - c. 6
 - d. 7

Teacher's Helper is a small company that has a subcontract to produce instructional materials for disabled children in public school districts. The owner rents several small rooms in an office building in the suburbs for \$600 a month and has leased computer equipment that costs \$480 a month.

Table 13-3

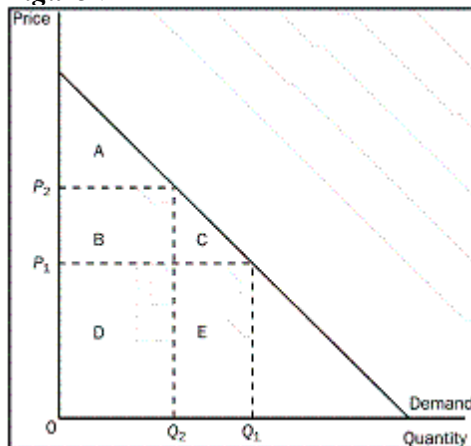
Output (instructional modules per month)	Fixed Costs	Variabl e Costs	Total Cost	Average Fixed Cost	Averag e Variabl e Cost	Average Total Cost	Margina l Cost
0	\$1080						
1	1080	\$ 400	\$ 1480				\$400
2						\$965	450
3		1350	2430				
4		1900			\$475		
5		2500		\$216			
6			4280				700
7		4100					
8		5400		135			
9		7300					
10			10 880		980		

- _____ 16. **Refer to Table 13-3.** What is the average fixed cost for the month if nine instructional modules are produced?
- \$108
 - \$120
 - \$150
 - \$175
- _____ 17. **Refer to Table 13-3.** What is the marginal cost of creating the tenth instructional module in a given month?
- \$900
 - \$1250
 - \$2500
 - \$3060
- _____ 18. **Refer to Table 13-3.** What is the average variable cost for the month if six instructional modules are produced?
- \$180
 - \$533.33
 - \$700
 - \$713.33

- _____ 19. What signals the entry and exit decisions of firms in a competitive market?
- profits and losses
 - high or low demand for a firm's product
 - high capital costs
 - low capital costs

Assume a certain firm is producing 1000 units of output (so $Q = 1000$). At $Q = 1000$, the firm's marginal cost equals \$15 and its average total cost equals \$11. The firm sells its output for \$12 per unit.

- _____ 20. **Refer to Scenario 14-2.** At $Q = 1000$, what is the firm's profit?
- \$200
 - \$1000
 - \$3000
 - \$4000
- _____ 21. Which of the following is NOT correct?
- Trade is based on absolute advantage.
 - Trade allows individuals to consume outside of their individual production possibilities curve.
 - Trade allows for specialization.
 - Trade is good for nations.
- _____ 22. What does producer surplus measure?
- the well-being of sellers
 - the well-being of society as a whole
 - the well-being of buyers and sellers
 - the loss to sellers

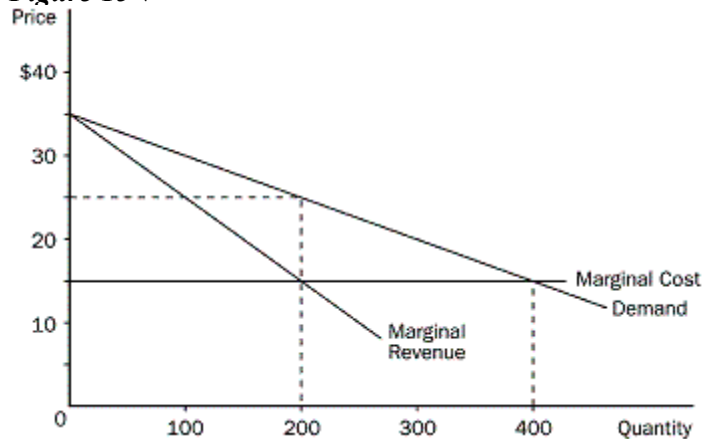
Figure 7-1

- _____ 23. Refer to Figure 7-1. What does area C represent?
- an increase in producer surplus when quantity sold increases from Q_2 to Q_1
 - the decrease in consumer surplus that results from a downward-sloping demand curve
 - a decrease in consumer surplus to each consumer in the market
 - consumer surplus to new consumers who enter the market when the price falls from P_2 to P_1
- _____ 24. Anna, Bill, and Charles are competitors in a local market, and each is trying to decide if it is worthwhile to advertise. If all of them advertise, each will earn a profit of \$5000. If none of them advertise, each will earn a profit of \$8000. If only one of them advertises, the one who advertises will earn a profit of \$10 000 and the other two will each earn \$2000. If two of them advertise, those two will each earn a profit of \$6000 and the other one will earn \$1000. If all three follow their dominant strategy, what will Anna do and how much will she earn?
- advertise and earn \$5000
 - advertise and earn \$6000
 - not advertise and earn \$8000
 - advertise and earn \$10 000
- _____ 25. A competitive market has a horizontal long-run supply curve and is in long-run equilibrium. If demand decreases, what can we be certain will happen in the short-run?
- At least some firms will exit the industry.
 - Price will fall below marginal cost.
 - Price will fall below average total cost.
 - At least some firms will shut down.
- _____ 26. What is market failure?
- the inability of a market to establish an equilibrium price
 - the inability of buyers to interact harmoniously with sellers in the market
 - the inability of some unregulated markets to allocate resources efficiently
 - the inability of buyers to place a value on the good or service

- _____ 27. Which of the following statements is accurate for most markets?
- a. As the tax rate rises, tax revenue rises for a while, but eventually begins to fall; deadweight loss continually rises.
 - b. As the tax rate increases, tax revenue continually rises and deadweight loss continually falls.
 - c. As the tax rate rises, tax revenue rises for a while, but eventually begins to fall; deadweight loss falls for a while, but begins to rise as tax revenue falls.
 - d. As the tax rate rises, tax revenue rises for a while, but eventually begins to fall; deadweight loss rises but also begins to fall as tax revenue falls.
- _____ 28. What is generally the case for a monopolist's average revenue?
- a. It is equal to the price of its product.
 - b. It is less than the price of its product.
 - c. It is greater than the price of its product.
 - d. It is equal to marginal revenue.
- _____ 29. Harry's Hotdogs is a small street vendor business owned by Harry Huggins. Harry is trying to get a better understanding of his costs by categorizing them as fixed or variable. Which of the following costs are most likely to be considered fixed costs?
- a. the cost of hotdog buns
 - b. wages paid to workers that sell hotdogs
 - c. the cost of mustard
 - d. the cost of bookkeeping services
- _____ 30. When technology improves in the ice cream industry, what happens to consumer surplus?
- a. It increases, then decreases.
 - b. It increases.
 - c. It does not change, since technology affects suppliers and not consumers.
 - d. It decreases.

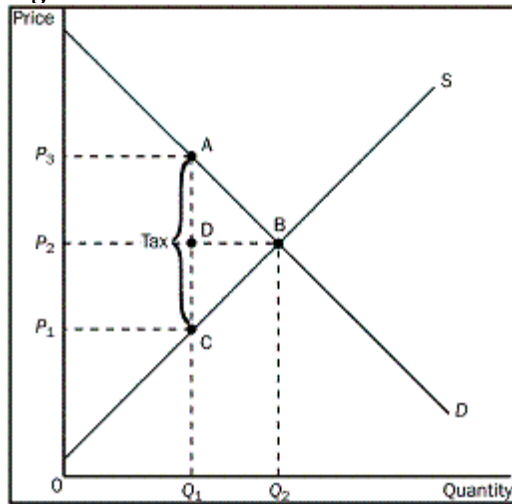
The figure below depicts the demand, marginal revenue, and marginal cost curves of a profit-maximizing monopolist.

Figure 15-7



- _____ 31. Refer to Figure 15-7. If the monopoly firm is NOT allowed to price discriminate, what is consumer surplus?
- \$0
 - \$500
 - \$1000
 - \$2000
- _____ 32. What does producer surplus equal?
- Amount received by sellers – Costs of sellers
 - Value to buyers – Amount paid by buyers
 - Value to buyers – Costs of sellers
 - Value to buyers – Amount paid by buyers + Amount received by sellers – Costs of sellers
- _____ 33. Which of the following is the most correct statement about tax burdens?
- A tax burden falls most heavily on the side of the market that is inelastic.
 - A tax burden falls most heavily on the side of the market that is closer to unit elastic.
 - A tax burden falls most heavily on the side of the market that is elastic.
 - A tax burden is distributed independently of relative elasticities of supply and demand.
- _____ 34. Alma, Bob, and Carlos are competitors in a local market, and each is trying to decide if it is worthwhile to advertise. If all of them advertise, each will earn a profit of \$2000. If none of them advertise, each will earn a profit of \$8000. If only one of them advertises, the one who advertises will earn a profit of \$6000 and the other two will each earn \$5000. If two of them advertise, those two will each earn a profit of \$4000 and the other one will earn \$3000. If all three follow their dominant strategy, what will Alma do and how much will she earn?
- advertise and earn \$2000
 - advertise and earn \$4000
 - not advertise and earn \$5000
 - not advertise and earn \$8000

Figure 8-2



- _____ 35. Refer to Figure 8-2. What is the per unit burden of the tax on the sellers?
- $P_3 - P_1$
 - $P_3 - P_2$
 - $P_2 - P_1$
 - $Q_2 - Q_1$
- _____ 36. Refer to Figure 8-2. What area represents the amount of deadweight loss associated with the tax?
- P_3ACP_1
 - ABC
 - P_2DAP_3
 - P_1CDP_2
- _____ 37. Refer to Figure 8-2. What is the per unit burden of the tax on buyers?
- $P_3 - P_1$
 - $P_3 - P_2$
 - $P_2 - P_1$
 - $Q_2 - Q_1$

Table 3-1

	Labour Hours Needed to Make 1 Kg of:		Kilograms produced in 40 hours:	
	Meat	Potatoes	Meat	Potatoes
Farmer	8	2	5	20
Rancher	4	5	10	8

- _____ 38. Refer to Table 3-1. Which of the following is correct?
- The Rancher has an absolute advantage in both goods, and the Rancher has a comparative advantage in meat.
 - The Rancher has an absolute advantage in both goods, and the Rancher has a comparative advantage in potatoes.
 - The Rancher has an absolute advantage in meat, and the Rancher has a comparative advantage in neither good.
 - The Rancher has an absolute advantage in meat, and the Rancher has a comparative advantage in meat.

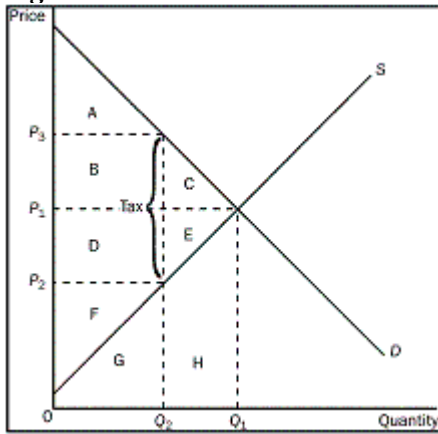
Two cigarette manufacturers (Firm A and Firm B) are faced with lawsuits from provinces to recover the health-care related expenses associated with cigarette smoking. Both cigarette firms have evidence that indicates that cigarette smoke causes lung cancer (and other related illness). Provincial prosecutors do not have access to the same data used by cigarette manufacturers and thus will have difficulty recovering full costs without the help of at least one cigarette firm study. Each firm has been presented with an opportunity to lower their liability in the suit if they cooperate with attorneys representing the provinces.

Table 16-3

		Firm A	
		Concede that cigarette smoke causes lung cancer	Argue that there is no evidence that smoke causes cancer
Firm B	Concede that cigarette smoke causes lung cancer	Firm A loss = -\$20 Firm B loss = -\$15	Firm A loss = -\$50 Firm B loss = -\$5
	Argue that there is no evidence that smoke causes cancer	Firm A loss = -\$5 Firm B loss = -\$50	Firm A loss = -\$10 Firm B loss = -\$10

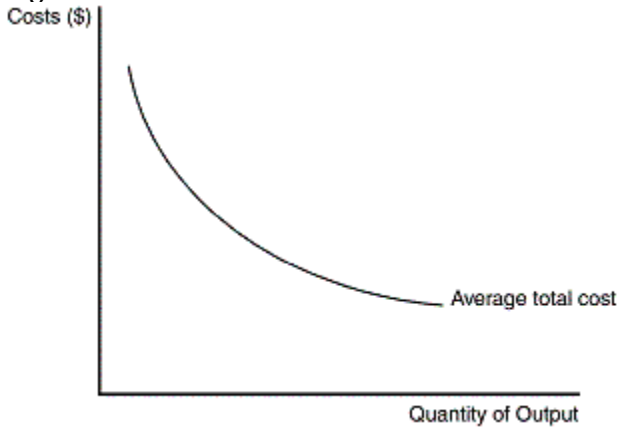
- _____ 39. Refer to Table 16-3. Pursuing its own best interests, when will Firm B concede that cigarette smoke causes lung cancer?
- only if Firm A concedes that cigarette smoke causes lung cancer
 - regardless of whether Firm A concedes that cigarette smoke causes lung cancer
 - only if Firm A does not concede that cigarette smoke causes lung cancer
 - under no circumstances

Figure 8-4



- _____ 40. Refer to Figure 8-4. Which area represents consumer surplus after the tax is levied on the consumer?
- A
 - A + B
 - A + B + C
 - D + E + F

Figure 15-1



- _____ 41. Refer to Figure 15-1. In view of what is known about the relationship between average total cost and marginal cost, what do we know about the marginal cost curve for this firm?
- It does not exist.
 - It must lie entirely above the average total cost curve.
 - It must lie entirely below the average total cost curve.
 - It must be upward sloping.

- _____ 42. Susan quit her job as a teacher, which paid her \$36 000 per year, in order to start her own catering business. She spent \$12 000 of her savings, which had been earning 10 percent interest per year, on equipment for her business. She also borrowed \$12 000 from her bank at 10 percent interest per year, which she also spent on equipment. For the past several months she has spent \$1000 per month on ingredients and other variable costs. Also for the past several months she has taken in \$3500 in monthly revenue. What should Susan do in the short run and the long run?
- In the short run, Susan should shut down her business and in the long run she should exit the industry.
 - In the short run, Susan should continue to operate her business, and she is also in long-run equilibrium.
 - In the short run, Susan should continue to operate her business, but in the long run she will probably face competition from newly entering firms.
 - In the short run, Susan should continue to operate her business, but in the long run she should exit the industry.

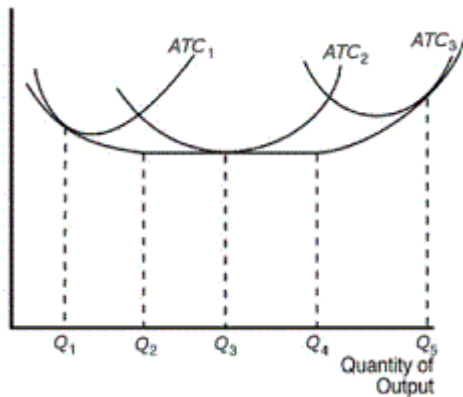
A monopolistically competitive firm faces the following demand curve for its product:

Table 16-1

Price (\$)	10	9	8	7	6	5	4	3	2	1
Quantity	2	4	6	9	10	12	14	16	18	20

- _____ 43. **Refer to Table 16-1.** The firm has total fixed costs of \$20 and a constant marginal cost of \$2 per unit. What will the firm do?
- It will produce 9 units; firms will enter the market in the long run.
 - It will produce 10 units; firms will enter the market in the long run.
 - It will produce 10 units; firms will exit the market in the long run.
 - It will produce 12 units; firms will enter the market in the long run.
- _____ 44. **Refer to Table 16-1.** Assume that there are two profit-maximizing digital cable TV companies operating in this market. Further assume that they are not able to "collude" on price and quantity of premium digital channel subscriptions to sell. How many premium digital channel cable TV subscriptions will be collectively sold (by both firms) when this market reaches a Nash equilibrium?
- 3000
 - 6000
 - 9000
 - 12 000

Figure 13-8



- _____ 45. Refer to Figure 13-8. What do the three average total cost curves on the diagram correspond to?
- three different products
 - three different firms
 - three different time horizons
 - three different factory sizes
- _____ 46. Suppose most people regard emeralds, rubies, and sapphires as close substitutes for diamonds. In this case, DeBeers, the large diamond company, has which of the following attributes?
- less incentive to advertise than it would otherwise have
 - less market power than it would otherwise have
 - higher profits than it would otherwise have
 - more control over the price of diamonds than it would otherwise have
- _____ 47. In a situation of long-run equilibrium, which of the following statements applies?
- A perfectly competitive firm operates at excess capacity.
 - Neither a competitive firm nor a monopolistically competitive firm charges a markup over marginal cost.
 - A monopolistically competitive firm operates at an inefficient scale.
 - A monopolistically competitive firm operates at its efficient scale.
- _____ 48. When do economies of scale occur?
- when long-run average total costs fall as output increases
 - when average fixed costs are constant
 - when average fixed costs are falling
 - when long-run average total costs rise as output increases

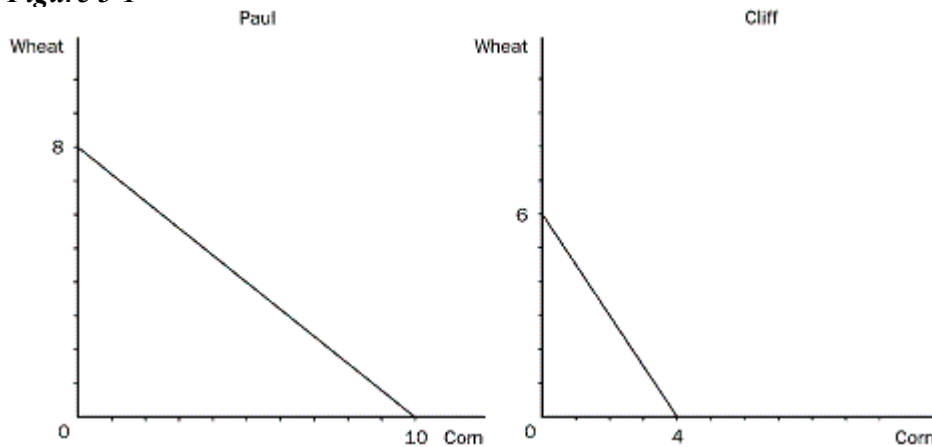
_____ 49. The widget industry has three types of firms. The cost structure for each type is as follows:

Output	Total Cost		
	Type A	Type B	Type C
0	\$ 5	\$ 5	\$ 5
1	10	12	8
2	12	14	10
3	15	18	12
4	24	30	20
5	40	50	30

If this is a competitive market and it is in long-run equilibrium, what must the price be if all three types of firms are producing?

- \$4
 - \$5
 - \$6
 - \$7
- _____ 50. When a firm operates at efficient scale, which of the following statements is correct?
- The average-total-cost curve must be rising.
 - Its average revenue must exceed the minimum of average total cost.
 - Its average revenue must be equal to the minimum of average total cost.
 - The average-total-cost curve must be falling.

Figure 3-1

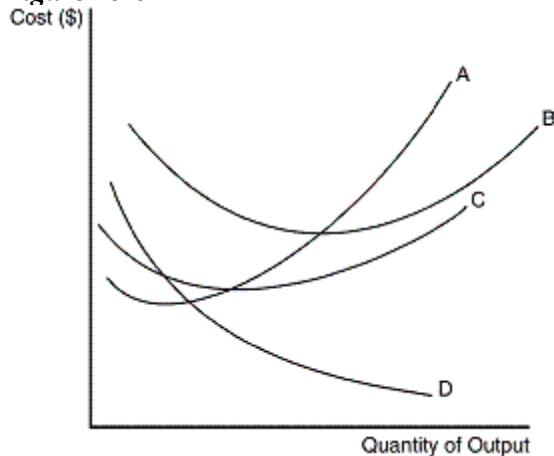


- _____ 51. Refer to Figure 3-1. Which of the following is true for Cliff and Paul?
- Cliff has an absolute advantage in both wheat and corn.
 - Cliff has an absolute advantage in wheat and Paul has an absolute advantage in corn.
 - Paul has an absolute advantage in both wheat and corn.
 - Paul has an absolute advantage in wheat and Cliff has an absolute advantage in corn.

- _____ 52. **Refer to Figure 3-1.** Assume that Cliff and Paul were both producing wheat and corn, and each was dividing their time equally between the two. Then they decide to specialize in the product they have a comparative advantage in. What would happen to the total production of corn?
- Increase by 5 bushels.
 - Increase by 1 bushel.
 - Increase by 3 bushels.
 - Decrease by 2 bushels.

The curves below reflect information about the average total cost, average fixed cost, average variable cost, and marginal cost for a firm.

Figure 13-5



- _____ 53. **Refer to Figure 13-5.** When is this particular firm necessarily experiencing increasing marginal product?
- when curve A is falling
 - when curve B is falling
 - when curve C is falling
 - when curve D is falling
- _____ 54. **Refer to Figure 13-5.** Which of the curves is most likely to represent average total cost?
- A
 - B
 - C
 - D
- _____ 55. Which of the following statements regarding a firm's decision making is correct?
- The decision to shut down and the decision to exit are both short-run decisions.
 - The decision to shut down is a short-run decision, whereas the decision to exit is a long-run decision.
 - The decision to exit is a short-run decision, whereas the decision to shut down is a long-run decision.
 - The decision to shut down and the decision to exit are both long-run decisions.

Scenario 15-3

A monopoly firm maximizes its profit by producing 500 units output (so $Q = 500$). At that level of output, its marginal revenue is \$30, its average revenue is \$40, and its average total cost is \$34.

- _____ 56. **Refer to Scenario 15-3.** What is the firm's maximum profit?
- \$2000
 - \$3000
 - \$4000
 - \$6000

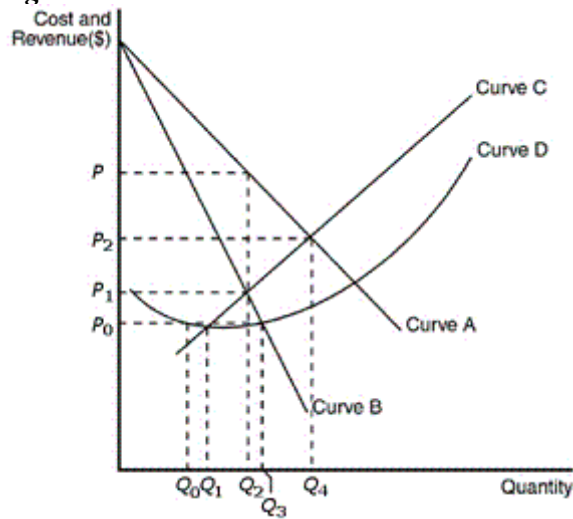
Table 3-3

	Labour Hours needed to make one unit of:		Amount produced in 160 hours:	
	Quilts	Dresses	Quilts	Dresses
Helen	40	10	4	16
Carolyn	80	16	2	10

- _____ 57. **Refer to Table 3-3.** What is the opportunity cost of 1 quilt for Carolyn?
- 5 dresses.
 - 3 dresses.
 - 4 dresses.
 - 2 dresses.
- _____ 58. **Refer to Table 3-3.** How could Helen and Carolyn both benefit?
- By Helen specializing in dresses and Carolyn specializing in quilts.
 - By Helen specializing in both goods and Carolyn specializing in neither good.
 - By Helen specializing in neither good and Carolyn specializing in both goods.
 - By Helen specializing in quilts and Carolyn specializing in dresses.
- _____ 59. When does a natural monopoly occur?
- when production requires the use of free natural resources, such as water or air
 - when there are economies of scale over the relevant range of output
 - when the firm is characterized by a rising marginal cost curve
 - when the product is sold in its natural state (such as water or diamonds)

The figure below reflects the cost and revenue structure for a monopoly firm.

Figure 15-2

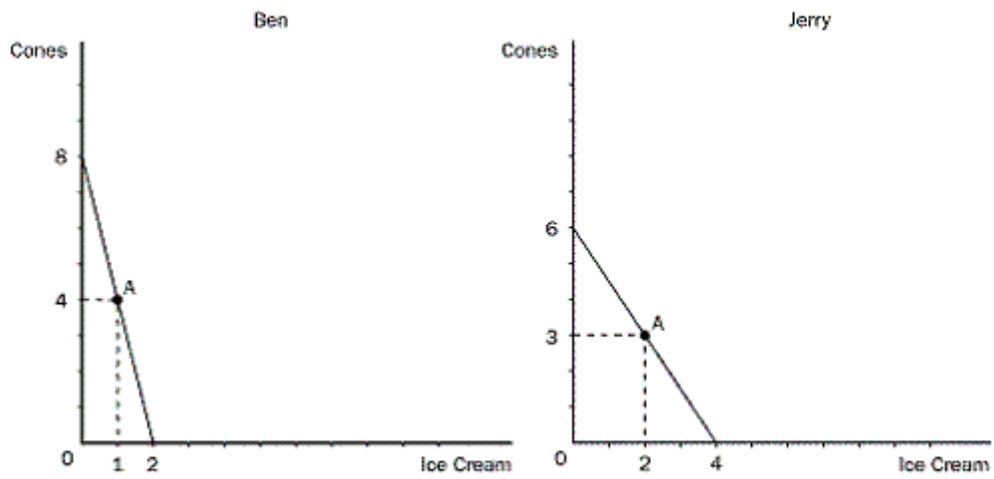


- _____ 60. **Refer to Figure 15-2.** If the monopoly firm is currently producing Q_3 units of output, what will a decrease in output necessarily cause profit to do?
- decrease
 - remain unchanged
 - increase as long as the new level of output is at least Q_1
 - increase as long as the new level of output is at least Q_2
- _____ 61. What does the free entry and exit of firms in a monopolistically competitive market guarantee?
- Both economic profits and economic losses disappear in the long run.
 - Both economic profits and economic losses increase in the long run.
 - Both economic profits and economic losses can persist into the long run.
 - Economic losses can persist into the long run, but not economic profits.

Table 13-1

Measures of Cost for ABC Inc. Widget Factory			
Quantity of Widgets	Variable Costs	Total Costs	Fixed Costs
0			\$10
1	\$ 1		
2	3	\$13	
3	6	16	
4	10		
5		25	
6	21		10

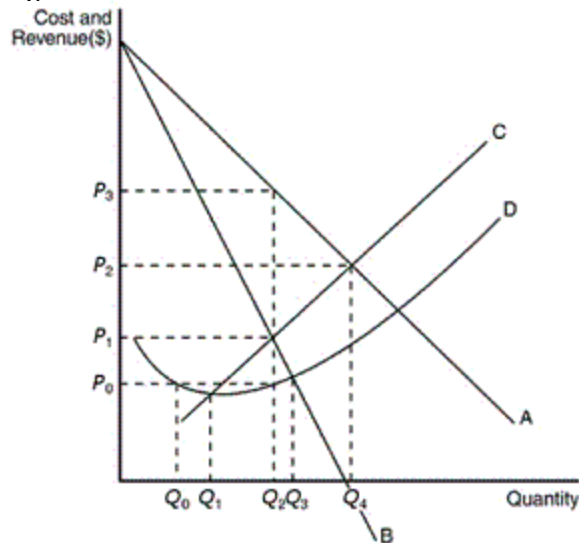
- _____ 62. Refer to Table 13-1. What is the average total cost of producing one widget?
- \$1.00
 - \$10.00
 - \$11.00
 - \$22.00
- _____ 63. Suppose that monopolistically competitive firms in a certain market are experiencing losses. What happens in the transition from this initial situation to a long-run equilibrium?
- Each incumbent firm experiences a decrease in demand for its product.
 - The number of firms in the market decreases.
 - Product variety increases.
 - Each firm experiences upward shifts of its marginal-cost and average-total-cost curves.

*Figure 3-3**Ice cream is measured in kilograms.*

- _____ 64. Refer to Figure 3-3. For Jerry, what is the opportunity cost of 1 kg of cones?
- a. $\frac{2}{3}$ kg of ice cream.
 - b. 3 kg of ice cream.
 - c. 2 kg of ice cream.
 - d. 1 kg of ice cream.

The figure below reflects the cost and revenue structure for a monopoly firm.

Figure 15-3



- _____ 65. Refer to Figure 15-3. At the profit-maximizing level of output, what do we know?
- Marginal cost is equal to P_3 .
 - Marginal revenue is equal to P_3 .
 - Average cost is equal to P_3 .
 - Average revenue is equal to P_3 .
- _____ 66. What is the impact of a technological advance in the production of computers?
- decrease consumer surplus in the market for computers but increase producer surplus in the market for computer software
 - increase consumer surplus in the market for computers but decrease producer surplus in the market for computer software
 - increase consumer surplus in the market for computers and increase producer surplus in the market for computer software
 - decrease consumer surplus in the market for computers and decrease producer surplus in the market for computer software
- _____ 67. A tax of \$10 per unit is imposed on a certain market. The tax reduces the equilibrium quantity in the market by 200 units. What is the deadweight loss from the tax?
- \$500
 - \$1000
 - \$2000
 - There is not enough information to answer the question.
- _____ 68. At Nick's Bakery, the cost to make Nick's homemade chocolate cake is \$3 per cake. He sells three and receives a total of \$21 worth of producer surplus. What is Nick selling his cakes for?
- \$2 each
 - \$7 each
 - \$8 each
 - \$10 each

- _____ 69. A firm will shut down in the short run if the total revenue that it would get from producing and selling its output is less than which of its costs?
- total costs
 - fixed costs
 - opportunity costs
 - variable costs
- _____ 70. As some incumbent firms exit a monopolistically competitive market, what happens to profits of existing firms and product diversity in the market?
- Profits of existing firms rise and product diversity in the market increases.
 - Profits of existing firms decline and product diversity in the market increases.
 - Profits of existing firms decline and product diversity in the market decreases.
 - Profits of existing firms rise and product diversity in the market decreases.
- _____ 71. Suppose that the equilibrium price in the market for widgets is \$5. If a law increased the minimum legal price for widgets to \$6, what would happen to producer surplus?
- It would necessarily decrease because the higher price would create a surplus of widgets.
 - It would necessarily increase even if the higher price resulted in a surplus of widgets.
 - It would be unaffected.
 - It might increase or decrease.

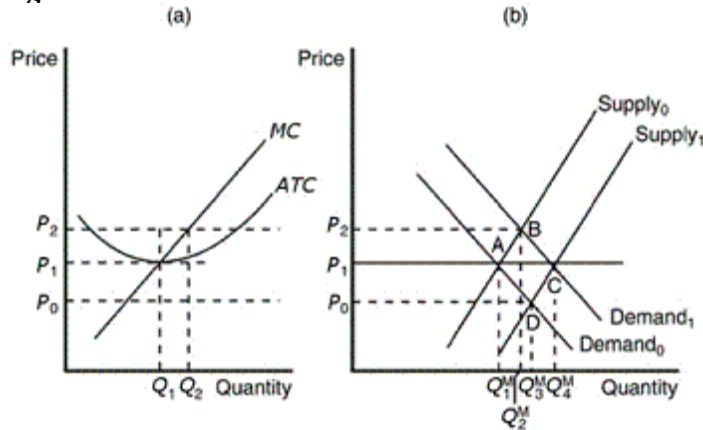
Scenario 16-2

Imagine that two oil companies, Big Petro Inc. and Gargantuan Gas, own adjacent oil fields. Under the fields is a common pool of oil worth \$12 million. Drilling a well to recover oil costs \$1 million per well. If each company drills one well, each will get half of the oil and earn a \$5 million profit (\$6 million in revenue minus \$1 million in costs). Assume that having X percent of the total wells means that a company will collect X percent of the total revenue.

- _____ 72. **Refer to Scenario 16-2.** Gargantuan Gas's dominant strategy would lead to what sort of well-drilling behaviour?
- Gargantuan Gas will drill a second well only if Big Petro Inc. does not drill a well.
 - Gargantuan Gas will drill a second well, whatever Big Petro Inc. does.
 - Gargantuan Gas will drill a second well only if Big Petro Inc. drills a well.
 - Gargantuan Gas will not drill a second well under any circumstances.
- _____ 73. What shape of demand curves do monopoly firms have and how much output can they sell?
- downward-sloping demand curves and they can sell only a limited quantity of output at each price
 - horizontal demand curves and they can sell only a limited quantity of output at each price
 - horizontal demand curves and they can sell as much output as they desire at the market price
 - downward-sloping demand curves and they can sell as much output as they desire at the market price

- _____ 74. In a particular market, there are 500 firms. Each firm has a marginal cost of \$30 when it produces 200 units of output. What is one point on the market supply curve?
- (Quantity = 500, Price = \$30)
 - (Quantity = 100 000, Price = \$30)
 - (Quantity = 100 000, Price = \$15 000)
 - (Quantity = 200, Price = \$30)

Figure 14-9



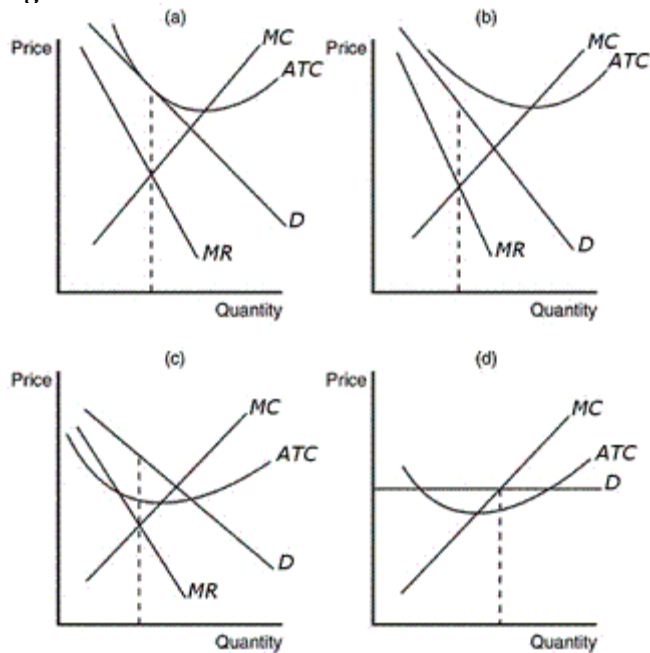
- _____ 75. **Refer to Figure 14-9.** If the market starts in equilibrium at point C in panel (b), what will a decrease in demand ultimately lead to in the long run?
- fewer firms in the market
 - a new long-run equilibrium at point D in panel (b)
 - the same number of firms, but each producing less output
 - more firms in the industry, but lower levels of production for each firm
- _____ 76. When new firms enter a perfectly competitive market, what will be the likely result?
- Demand increases.
 - Existing firms will increase prices in response to the entry of the new firms.
 - The short-run market supply curve shifts right.
 - The short-run market supply curve shifts left.

Two discount superstores (Ultimate Saver and SuperDuper Saver) in a growing urban area are interested in expanding their market share. Both are interested in expanding the size of their store and parking lot to accommodate potential growth in their customer base. The following game depicts the strategic outcomes that result from the game. Growth-related profits of the two discount superstores under two scenarios are reflected in the table below.

Table 16-5

		SuperDuper Saver	
		Increase the size of store and parking lot	Do not increase the size of store and parking lot
Ultimate Saver	Increase the size of store and parking lot	SuperDuper Saver = \$50 Ultimate Saver = \$65	SuperDuper Saver = \$25 Ultimate Saver = \$275
	Do not increase the size of store and parking lot	SuperDuper Saver = \$250 Ultimate Saver = \$35	SuperDuper Saver = \$85 Ultimate Saver = \$135

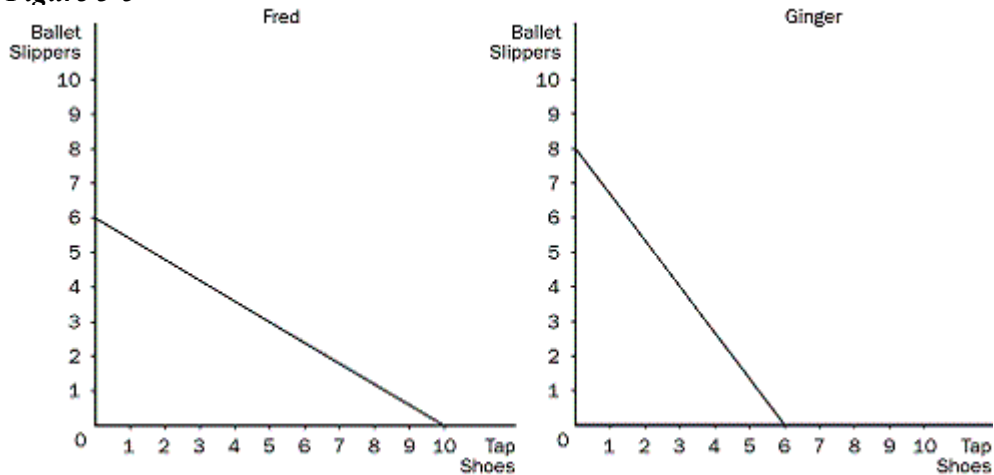
- _____ 77. Refer to Table 16-5. When this game reaches a Nash equilibrium, what will the dollar value of growth-related profits be?
- Ultimate Saver \$35 and SuperDuper Saver \$250
 - Ultimate Saver \$65 and SuperDuper Saver \$50
 - Ultimate Saver \$135 and SuperDuper Saver \$85
 - Ultimate Saver \$275 and SuperDuper Saver \$25
- _____ 78. At what level of output will a profit-maximizing monopolist produce?
- the level of output at which average revenue is equal to average total cost
 - the level of output at which total revenue is equal to opportunity cost
 - the level of output at which marginal revenue is equal to marginal cost
 - the level of output at which average revenue is equal to marginal cost
- _____ 79. Marginal cost increases as the quantity of output increases. What property does this reflect?
- increasing total cost
 - diminishing marginal product
 - diminishing total cost
 - increasing marginal product

Figure 16-4

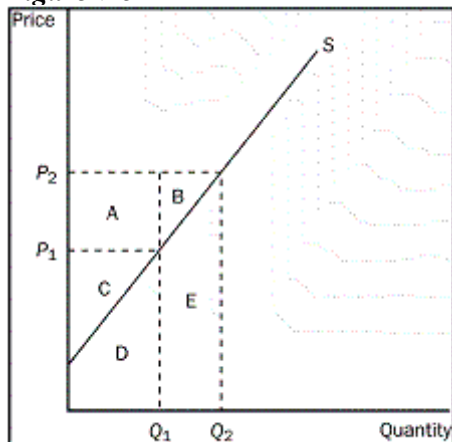
- _____ 80. **Refer to Figure 16-4.** Which of the panels depicts a firm in a monopolistically competitive market earning economic profits?
- panel (a)
 - panel (b)
 - panel (c)
 - panel (d)
- _____ 81. When is marginal cost equal to average total cost?
- when average total cost is at its minimum
 - when marginal cost is at its minimum
 - when average variable cost is falling
 - when average fixed cost is rising

These graphs illustrate the production possibilities available for dancing shoes to Fred and Ginger with 40 hours of labour.

Figure 3-5



- _____ 82. Refer to Figure 3-5. If Fred and Ginger both specialize in the good in which they have a comparative advantage, what would the total consumption be?
- 6 ballet slippers and 6 tap shoes.
 - 4 ballet slippers and 6 tap shoes.
 - 8 ballet slippers and 10 tap shoes.
 - 8 ballet slippers and 8 tap shoes.
- _____ 83. When a profit-maximizing firm finds itself minimizing losses because it is unable to earn a positive profit, this task is accomplished by producing the quantity at which price is equal to which cost?
- average fixed cost
 - sunk cost
 - marginal cost
 - average variable cost

Figure 7-5

- _____ 84. Refer to Figure 7-5. When the price falls from P_2 to P_1 , what happens to producer surplus?
- It decreases by an amount equal to A.
 - It decreases by an amount equal to $A + B$.
 - It increases by an amount equal to $A + B$.
 - It decreases by an amount equal to $A + C$.
- _____ 85. For cartels, once the number of firms (members of the cartel) increases, what do we know?
- The monopoly outcome becomes less likely.
 - The more concerned each seller is about its own impact on the market price.
 - The magnitude of the price effect increases.
 - The monopoly outcome becomes more likely.
- _____ 86. For what reason is the prisoners' dilemma an important game to study?
- Most games present zero-sum alternatives.
 - Most games are only played once.
 - It identifies the fundamental difficulty in maintaining cooperative agreements.
 - Strategic decisions faced by prisoners are identical to those faced by firms engaged in competitive agreements.
- _____ 87. Suppose that the equilibrium quantity in the market for widgets has been 200 per month. Then a tax of \$5 per widget is imposed. As a result, the government is able to raise \$750 per month in revenue. By how much has the equilibrium quantity of widgets fallen?
- 25 per month
 - 50 per month
 - 75 per month
 - 100 per month
- _____ 88. A long-run supply curve that is flatter than a short-run supply curve is a result of which of the following?
- Firms in a competitive market face identical cost structures.
 - Competitive firms have more control over demand in the long run.
 - Firms can enter and exit a market more easily in the long run than in the short run.
 - Long-run supply curves are sometimes downward sloping.

Name: _____

ID: A

- _____ 89. When firms in a perfectly competitive market face the same costs, how must they be operating in the long run?
- a. under economies of scale
 - b. with small, but positive, levels of profit
 - c. at their efficient scale
 - d. under diseconomies of scale
- _____ 90. When will buyers of a product pay the majority of a tax placed on a product?
- a. when the tax is placed on the buyer of the product
 - b. when demand is more elastic than supply
 - c. when the tax is placed on the seller of the product
 - d. when supply is more elastic than demand

**Practice Final Exam Questions
Answer Section**

MULTIPLE CHOICE

1. D
2. A
3. D
4. C
5. A
6. B
7. A
8. D
9. B
10. B
11. B
12. B
13. C
14. B
15. C
16. B
17. C
18. B
19. A
20. B
21. A
22. A
23. D
24. A
25. C
26. C
27. A
28. A
29. D
30. B
31. C
32. A
33. A
34. D
35. C
36. B
37. B
38. D
39. B
40. A

- 41. C
- 42. D
- 43. A
- 44. D
- 45. D
- 46. B
- 47. C
- 48. A
- 49. C
- 50. C
- 51. C
- 52. C
- 53. A
- 54. B
- 55. B
- 56. B
- 57. A
- 58. D
- 59. B
- 60. D
- 61. A
- 62. C
- 63. B
- 64. A
- 65. D
- 66. C
- 67. B
- 68. D
- 69. D
- 70. D
- 71. D
- 72. B
- 73. A
- 74. B
- 75. A
- 76. C
- 77. B
- 78. C
- 79. B
- 80. C
- 81. A
- 82. C
- 83. C
- 84. B
- 85. A
- 86. C

- 87. B
- 88. C
- 89. C
- 90. D

D 1.

 A 2.

 C 4.

 B 14.

 A 7.

 B 9.

 C 15.

 D 3.

 A 5.

 B 11.

 D 8.

 B 10.

 B 6.

 B 12.

 C 13.

A 19.

 A 27.

 B 20.

 A 28.

 A 21.

 D 23.

 D 29.

 C 31.

 C 35.

 A 22.

 A 24.

 B 30.

 A 32.

 B 36.

 B 16.

 C 17.

 A 33.

 B 37.

 C 25.

 D 34.

 B 18.

 C 26.

D 42.

 C 49.

 C 52.

 D 38.

 A 40.

 D 45.

 C 50.

 B 46.

 A 43.

 C 47.

 A 53.

 D 44.

 A 48.

 B 54.

 C 41.

 B 39.

 C 51.

 B 55.

Practice Final Exam Questions [Answer Strip]

ID: A

 D 69.

 B 56.

 D 70.

 C 62.

 D 71.

 A 57.

 D 60.

 B 63.

 A 64.

 D 65.

 D 58.

 A 61.

 C 66.

 B 59.

 B 72.

 B 67.

 A 73.

 D 68.

Practice Final Exam Questions [Answer Strip]

ID: A

 B 74.

 C 89.

 D 90.

 B 84.

 B 77.

 C 82.

 A 75.

 C 80.

 A 85.

 C 78.

 C 83.

 C 76.

 A 81.

 C 86.

 B 79.

 B 87.

 C 88.