

Multiple Choice Questions for Final Examination

**PLEASE DO NOT WRITE ON THIS EXAMINATION FORM**

1- The factor of production "capital" is created when:

- A- A share of stock in General Motors is bought by one person from another person through a brokerage company
- B. A person opens a savings account at the local bank
- C. An automobile company builds a new factory building
- D. A person inherits \$1 million from a deceased relative

2. You attend opening night of a new play, paying \$20 for the ticket. You could have spent the two hours working at \$8 per hour, attending a baseball game for \$15, or attending a new film for \$7. Your opportunity cost of attending the play is:

- A. \$20, because this is the price of the ticket
- B. \$16, because this is the value of the time sacrificed
- C. \$36, because this is the value of everything that was sacrificed
- D. \$15, because the baseball game is a substitute for the play
- E. \$ 7, because this is the minimum cost of an alternative action

3. According to the principle of increasing marginal cost, as the United States expends more of its resources on reducing air pollution:

- A. the external cost of air pollution will increase
- B. the additional benefits from further reductions in air pollution will decrease
- C. the amount of air pollution will increase
- D. the quantity of other goods that must be given up to further reduce air pollution will increase

4. Jack can work in the labor market for an income of \$200,000 or he can work at home, providing services worth \$20,000. Jill can work in the labor market for an income of \$100,000 or she can work at home, providing services worth \$15,000.

Which of the following statements is NOT true?

- A. Jack has an absolute advantage in working at home
- B. Jack has an absolute advantage in working in the labor market
- C. Jack has a comparative advantage in working at home
- D. Jack has a comparative advantage in the labor market

5. Price Per Gallon    Quantity Demanded    Quantity Supplied

\$2.80	1,000	7,000
2.50	2,000	6,000
2.20	3,000	5,000
1.90	4,000	4,000
1.60	5,000	3,000

Using the numbers in this table, which of the following is true?

- A. The equilibrium price is \$1.90
- B. If the price were \$1.60, there would be a surplus of 2,000
- C. If the price were \$2.80, there would be a shortage of 8,000
- D. If the price were \$2.50 indefinitely, one could be certain that a price ceiling were in existence
- E. All of the above

6. In the summer of 1992, American Airlines lowered its fares by 50%. The purpose was to increase its revenues. American Airlines must have assumed that the demand for airline travel was:

- A. Relatively Elastic
- C. Relatively Inelastic
- B. Unit Elastic
- D. Perfectly Inelastic

7. Which of the following would cause the demand for a product to shift to the left?

- A. An increase in the price of a substitute good
- B. An increase in the price of a complementary good
- C. An increase in a cost of production
- D. An increase in the price of the product

8. If we observe that the price of the product has risen while the quantity of the product sold has fallen, which of the following must have occurred?

- A. Demand has shifted to the right
- C. Supply shifted to the right
- B. Demand has shifted to the left
- D. Supply shifted to the left

9. The incidence of a sales tax will be more on the buyer of the product:

- A. The more elastic is demand for the product
- B. The more inelastic is the demand for the product
- C. The higher is the income elasticity of demand for the product
- D. The lower is the cross elasticity of demand

10. Which of the following statements is correct?

- A. If the income elasticity of demand is  $-2$ , the product is a normal good
- B. If the cross elasticity of demand is  $+2$ , the products are substitutes
- C. If the price elasticity of supply is  $+2$ , the supply is relatively inelastic
- D. As the price of the product rises, the price elasticity of demand becomes smaller

11. The Oakland Raiders sell tickets to their games with what in effect a price floor. The price of the tickets is set by the team at \$70 to \$85 each. Anyone buying the tickets will pay that price. There are 60,000 tickets for sale. Only about 50,000 people are willing to pay that price to see the game in person. As a result of this, which of the following would you expect might occur?

- A. Long lines for Oakland Raider tickets
- B. Empty seats at Oakland Raider football games
- C. Oakland Raider tickets being sold through newspapers for \$200 or more per ticket
- D. The Oakland Raiders selling tickets only to season ticket holders and not to others

12. Pure public goods cannot be sufficiently provided by private companies in a market because:

- A. The cost of producing public goods is greater for private companies than for the government
- B. After a public good is produced, no one can be excluded from using it even if they will not pay
- C. Private companies would produce more of public goods than buyers would wish to buy
- D. Pure public goods have no marginal utility to buyers

13. An example of a negative externality (external cost) would be:
- A. Production of a good that makes a no profit
  - B. A technological innovation lowers costs of production in one industry and also in other industries
  - C. Hiring workers who turn out to be inefficient
  - D. An increase in lead emissions from automobiles causing lung disease

14. Why is water, which is essential to life, virtually free, while diamond is very expensive?

- A. Diamonds give more total utility than water
- B. Water is more important to society than diamond
- C. The marginal utility of the last unit of water is low because there is so much of it. That of diamond is high because there is so little of it.
- D. The marginal utility of the last unit of water is high because there is so much of it. That of diamond is low because there is so much of it.

15. Which of the following is an implicit cost?

- A. The wages paid to the workers
- B. The rent paid for the building
- C. The value of the owner's labor at her own store
- D. The interest paid to borrow money

16. According to the law of diminishing returns, if at least one factor of production is fixed, then as more of a variable factor is added, beyond some point,

- A. Marginal Physical Product diminishes
- B. Total Physical Product diminishes
- C. Total Revenue diminishes
- D. Total Cost diminishes
- E. Total Profit diminishes

17. Quantity Total Fixed Cost Total Variable Cost

1	\$100	\$50
2	\$100	\$150
3	\$100	\$350
4	\$100	\$650
5	\$100	\$1050

Using these numbers, the average fixed cost of producing 4 units is:

- A. \$100
- B. \$50
- C. \$20
- D. \$25
- E. \$500

18. Using the numbers in question 17, the average variable cost of producing 5 units is:

- A. \$210
- B. \$1050
- C. \$400
- D. \$190
- E. \$950

19. Using the numbers in question 17, the average total cost of producing 3 units is:

- A. \$450
- B. \$33.33
- C. \$116.67
- D. \$150
- E. \$200

20. Using the numbers in question 17, if a company sells its product in a perfectly competitive market at a price of \$250, the profit-maximizing quantity to produce is:

- A. 1
- B. 2
- C. 3
- D. 4
- E. 5

21. Economies of scale exist if:

- A. As the quantity increases, the long-run average cost falls
- B. As the quantity increases, the long-run average cost rises
- C. As the quantity increases, the long-run marginal cost rises
- D. As the quantity increases, the long-run marginal product falls

22. Which of the following is true about perfect competition?

- A. there are few sellers of the product
- B. the demand curve facing one seller is perfectly elastic
- C. there is product differentiation
- D. there are diseconomies of scale

23. Suppose that a company must makes an economic loss. In the short-run, the company should continue to produce as long as the price is greater than the:

- A. Marginal Revenue
- B. Average Fixed Cost
- C. Marginal Cost
- D. Average Total Cost
- E. Average Variable Cost

24. We know that resources are being allocated efficiently (i.e., the "right" goods and services are being produced) if the:

- A. Price equals the Marginal Revenue
- B. Price equals the Marginal Cost
- C. Price equals the Marginal Utility
- D. Price equals the Average Total Cost

25. For a company in perfect competition in the short-run, its supply curve is the same as its:

- A. Average fixed cost curve
- B. Marginal cost curve above average variable cost
- C. Marginal cost curve above marginal revenue
- D. Average total cost curve above marginal cost
- E. Marginal revenue curve above average fixed cost

26. The graph did not copy correctly.

27. Assume the demand and total cost are given by the following:

Quantity	Price	Total Cost
0	\$120	\$ 50
1	110	100
2	100	160
3	90	230
4	80	310
5	70	400

To maximize profits, this monopolist should produce a quantity of:

- A. 0
- B. 2
- C. 3
- D. 4
- E. 5

28. If a single company were broken up into one thousand competing companies:

- A. The price would fall and the quantity produced would rise
- B. Production would be more likely to be at the minimum point on the average cost curve
- C. The economic profits would more likely be zero
- D. The price would equal the marginal cost
- E. All of the above

29. People who clip coupons out of the newspaper and present them to the cashier will pay a lower price for certain food products than people who don't. Why does this occur?

- A. These food products are produced in purely competitive industries
- B. These food products have economies of scale in production
- C. There are more people who clip coupons than who don't
- D. Those who clip coupons have a more elastic demand for these food products than those who don't

30. Which of the following is necessary for there to be a "natural monopoly"? ~
- A. The Herfindahl Index is below 1000
  - B. Variable Costs are a very high proportion of the total cost
  - C. Economies of Scale exist over the entire market
  - D. Price being greater than Marginal Revenue

31. The graph did not copy.

32. Which of the following occurred because of the way SDG&E and other public utilities were regulated by the Public Utilities Commission?
- A. Price was equal to the Marginal Cost
  - B. Price was equal to the Average Total Cost
  - C. Economic Profits were earned for long time periods
  - D. Prices were the same as would have been charged without the regulation

33. There are thousands of restaurants in San Diego. But each is different from the others. Restaurants would be an example of:
- A. Perfect Competition
  - B. Monopolistic Competition
  - C. Oligopoly
  - D. Pure Monopoly

34. Which of the following is true about monopolistic competition?
- A. The demand curve for one company is perfectly elastic
  - B. Economic profits are likely to be zero in the long-run
  - C. Price leadership is a common practice
  - D. Production occurs at the minimum point on the Average Total Cost

35. There are six companies in an industry. Company A sells 30% of the total sales. Company B sells 20%. Company C sells 20%. Company D sells 10%. Company E sells 10%. And Company F sells 10%. The concentration ratio in this industry is:
- A. 30%
  - B. 50%
  - C. 70%
  - D. 80%
  - E. 1000~

36. Using the numbers in question 35 the Herfindahl Index is:
- A. 2000
  - B. 100
  - C. 900
  - D. 6400
  - E. 10,000

37. Under the 1984 Merger Guidelines, if Company F wished to buy Company E, there merger would be
- A. Legal
  - B. Illegal
  - C. The 1984 Merger Guidelines do not address this

38. Under the provisions of the Sherman Act and the Clayton Act, which of the following is illegal?
- A. Conglomerate Mergers
  - B. Pure Monopoly
  - C. Oligopoly
  - D. Negative Externalities

39. Labor Total Physical Product

1	10
2	30
3	40
4	49
5	57
6	64
7	69

- Assume that this company sells its product in perfect competition at a market price of \$100. It also hires its labor in perfect competition at a market wage of \$800. How many workers will this company hire?
- A. 4
  - B. 5
  - C. 6
  - D. 7
  - E. 8

40. If the minimum wage is raised to \$10 per hour, the number of people who will lose their jobs will be greater if:
- A. It is easy to substitute machines for those previously making less than \$10 per hour
  - B. The products produced by those previously making less than \$10 per hour have relatively inelastic demand
  - C. The wages of those previously making less than \$10 per hour were a low proportion of the total cost of making the products
  - D. There is only a short time period involved
41. Which of the following is a possible reason for the fact that men earn more than women?
- A. Men have less firm-specific training
  - B. Men work in industries with lower concentration ratios
  - C. Men work with less capital per worker
  - D. Men have more human capital
42. "Married women are more likely to work for pay today than previously because the wages of married women have been rising." This statement is an example of:
- A. The Income Effect
  - B. The Substitution Effect
  - C. Diminishing Marginal Utility
  - D. Statistical Discrimination
43. Assume that there is a pure monopoly producing electricity. The government imposes a fixed tax of \$1 million on the company (a fixed cost). Which of the following is true?
- A. The profits of the electricity monopoly will fall
  - B. Electricity prices will rise
  - C. The quantity of electricity produced will fall
  - D. All of the above
44. Again assume that there is a pure monopoly producing electricity. Now the government imposes a tax of five cent per kilowatt-hour sold (a variable cost). Which of the following is true?
- A. The profits of the electricity monopoly will stay the same
  - B. Electricity prices will rise
  - C. The quantity of electricity produced will rise
  - D. All of the above
45. When Exxon, a producer of gasoline, bought Mobil, a producer of gasoline, the merger was:
- A. Horizontal
  - B. Vertical
  - C. Conglomerate
  - D. Illegal
46. Which of the following statements is/are true about labor unions?
- A. Unions ability to raise wages increases when the demand for their labor is very inelastic
  - B. The proportion of American workers belonging to labor unions has been rising recently
  - C. The AFL-CIO does most collective bargaining in the United States
  - D. All of the above
47. "Any worker can be hired but must join a union within 30 days of being hired". This is a/an:
- A. Closed shop
  - B. Open shop
  - C. Union shop
  - D. Agency shop
- 48 Normally, the supply curve of labor to the economy as a whole is:
- A. Upward -sloping
  - B. Downward -sloping
  - C. Backward Bending
  - D. Horizontal

49. Which of the following statements is true about the distribution of income?  
A. The American distribution of income in 1999 was more equal than in 1980  
B. The distribution of income is more equal than the American distribution of wealth  
C. Taxes and transfers makes the American distribution of income more unequal  
D. The American distribution of income is more equal than that of the European countries

50. The graph did not copy.

End of Examination

Answers:

1. C 2. C 3. D 4. C 5. A  
6. A 7. B 8. D 9. B 10. B  
  
11. B 12. B 13. D 14. C 15. C  
16. A 17. D 18. A 19. D 20. C  
  
21. A 22. B 23. E 24. C 25. B  
26. x 27. C 28. E 29. D 30. C  
  
31. x 32. B 33. B 34. B 35. D  
36. A 27. B 38. B 39. B 40. A  
  
41. C 42. B 43. A 44. B 45. A  
46. A 47. C 48. C 49. B 50. x