

1. The "perfect information" assumption of perfect competition includes all of the following except one. Which one?

Consumers know their preferences.

Consumers know their income levels.

Consumers know the prices available.

**Consumers can anticipate price changes.**

2. Incremental cost is the same concept as \_\_\_\_\_ cost.

Average

**Marginal**

Fixed

Variable

3. A production function assumes a given:

**Technology.**

Set of input prices.

Ratio of input prices.

Amount of output.

4. Assume that beer is an inferior good. If the price of beer falls, then the substitution effect results in the person buying \_\_\_\_\_ of the good and the income effect results in the person buying \_\_\_\_\_ of the good.

More, more

More, less

**Less, more**

Less, less

5. Producer surplus for the whole market can be thought of as:

Total profit.

**Variable operating profit plus factor rents.**

Total profit minus factor rents earned by lower cost firms.

Total profit plus factor rents earned by lower cost firms.

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- 6. Baba Burgers has discovered there are economies of scope available to the restaurant. Which is most likely to be a response to this discovery?**

Baba expands burger production, focusing on that one good.

Baba contracts burger production.

**Baba adds grilled chicken sandwiches to the menu.**

Baba cuts back on the diversity of the menu.

- 7. The endpoints (horizontal and vertical intercepts) of the budget line:**

Measure its slope.

Measure the rate at which one good can be substituted for another.

**Measure the rate at which a consumer is willing to trade one good for another.**

Represent the quantity of each good that could be purchased if all of the budget were allocated to that good.

- 8. The "perfect information" assumption of perfect competition includes all of the following except one. Which one?**

Consumers know their preferences.

Consumers know their income levels.

Consumers know the prices available.

**Consumers can anticipate price changes.**

- 9. The difference between the economic and accounting costs of a firm are:**

**The accountant's fees.**

The corporate taxes on profits.

The opportunity costs of the factors of production that the firm owns.

The sunk costs incurred by the firm.

- 10. Plastic and steel are substitutes in the production of body panels for certain automobiles. If the price of plastic increases, with other things remaining the same, we would expect:**

The price of steel to fall.

**The demand curve for steel to shift to the right.**

The demand curve for plastic to shift to the left.

The demand curve for steel to shift to the left.

Quiz 2

**11. Cost-output elasticity can be written and calculated as:**

**MC/AC.**

AC/MC

(AC)(MC)

(AC)<sup>2</sup>(MC)

**12. Fixed costs are fixed with respect to changes in:**

**Output.**

Capital expenditure.

Wages.

Time.

**13. The presence of a learning curve may induce a decision maker in a startup firm to choose:**

Low levels of output to exploit economies of scale.

High levels of output to exploit economies of scale.

Low levels of output to shift the average cost curve down over time.

**High levels of output to shift the average cost curve down over time.**

**14. Which of the following is true regarding the relationship between returns to scale and economies of scope?**

A firm experiencing economies of scope must also experience increasing returns to scale.

**Economies of scale and economies of scope must occur together.**

A firm experiencing increasing returns to scale must also experience economies of scope.

There is no definite relationship between returns to scale and economies of scope.

**15. Salman would prefer a certain income of \$20,000 to a gamble with a 0.5 probability of \$10,000 and a 0.5 probability of \$30,000. Based on this information:**

We can infer that Salman is risk neutral.

We can infer that Salman is risk averse.

**We can infer that Salman is risk loving.**

We cannot infer Salman's risk preferences.

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**16. When the average product is decreasing, marginal product:**

- Equals average product.
- Is increasing.
- Exceeds average product.
- Is less than average product.**

**17. Government intervention can increase total welfare when:**

- There are costs or benefits that are external to the market.
- Consumers do not have perfect information about product quality.
- A high price makes the product unaffordable for most consumers.**
- There are costs or benefits that are external to the market and consumers do not have perfect information about product quality.

**18. If a competitive firm's marginal cost curve is U-shaped then:**

- Its short run supply curve is U-shaped too.
- Its short run supply curve is the downward-sloping portion of the marginal cost curve.**
- Its short run supply curve is the upward-sloping portion of the marginal cost curve.
- Its short run supply curve is the upward-sloping portion of the marginal cost curve that lies above the short run average variable cost curve.

**19. Economies of scope refer to:**

- Changes in technology.**
- The very long run.
- Multiproduct firms.
- Single product firms that utilize multiple plants.

**20. Although there are many reasons why a market can be non-competitive, the principal economic difference between a competitive and a non-competitive market is:**

- The extent to which any firm can influence the price of the product.
- The size of the firms in the market.
- The annual sales made by the largest firms in the market.
- The presence of government intervention.**

**21. Indifference curves that are convex to the origin reflect:**

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An increasing marginal rate of substitution.

**A decreasing marginal rate of substitution.**

A constant marginal rate of substitution.

A marginal rate of substitution that first decreases, then increases.

**22. The endpoints (horizontal and vertical intercepts) of the budget line:**

Measure its slope.

Measure the rate at which one good can be substituted for another.

**Measure the rate at which a consumer is willing to trade one good for another.**

Represent the quantity of each good that could be purchased if all of the budget were allocated to that good.

**23. Consider the following statements when answering this question: I. "In the long run equilibrium of a perfectly competitive market, a firm's producer surplus equals the sum of the economic rents earned on its inputs to production." II. "In the long run equilibrium of a perfectly competitive market, the amount of economic profit earned can differ across firms, but not the amount of producer surplus."**

I and II are true.

I is true, and II is false.

**I is false, and II is true.**

I and II are false.

**24. Suppose that the prices of good A and good B were to suddenly double. If good A is plotted along the horizontal axis:**

The budget line will become steeper.

The budget line will become flatter.

The slope of the budget line will not change.

**The slope of the budget line will change, but in an indeterminate way.**

**3**

**25. A country's government would like to raise the price of one its most important agricultural crops, coffee beans. Which of the following government programs will result in higher prices for coffee beans?**

Select correct option:

An import quota on coffee beans.

An acreage limitation program which provides coffee bean farmers financial incentives to leave some of their acreage idle.

An import tariff on coffee beans.

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All of the given options.

**26. Which of the following is NOT a generally accepted measure of the riskiness of an investment?**

Select correct option:

Standard deviation.

Expected value.

Variance.

**None of the given options.**

**27. Which of the following is a positive statement?**

Select correct option:

When the price of a good goes up, consumers buy less of it.

**When the price of a good goes up, firms produce more of it.**

When the Federal government sells bonds, interest rates rise and private investment is reduced.

All of the given options.

**28. Rabia knows average total cost and average variable cost for a given level of output. Which of the following costs can she not determine given this information?**

Select correct option:

Average fixed cost

Fixed cost

Variable cost

**Rabia can determine all of the above costs given the information provided.**

**29. Which of the following is NOT true about price floors?**

Select correct option:

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## ECO 402 Final Term Quiz

Consumer surplus is always lower than it would be in the competitive equilibrium.  
Producer surplus could be lower, higher, or the same as it would be in competitive equilibrium.

Producer surplus could be negative as the result of a price floor.

**Producers will often respond to a price floor by cutting production to the point at which price equals marginal cost.**

**30. A production function in which the inputs are perfectly substitutable would have isoquants that are:**

Select correct option:

Convex to the origin.

L shaped.

Linear.

Concave to the origin.

**31. For an inferior good:**

Select correct option:

The price elasticity of demand is negative; the income elasticity of demand is negative.

The price elasticity of demand is positive; the income elasticity of demand is negative.

**The price elasticity of demand is negative; the income elasticity of demand is positive.**

The price elasticity of demand is positive; the income elasticity of demand is positive.

**32. The short run is:**

Select correct option:

Less than a year.

Three years.

However long it takes to produce the planned output.

A time period in which at least one input is fixed.

**33. Any combination of products inside the production possibility frontier is:**

Select correct option:

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Allocatively inefficient  
Consumer inefficient  
Productively inefficient  
None of the given option.

**34. Which of the following is NOT an assumption regarding people's preferences in the theory of consumer behavior?**

Select correct option:

Preferences are complete.  
Preferences are transitive.  
Consumers prefer more of a good to less.  
None of the given options.

**35. In 1970s the federal government imposed price controls on natural gas. Which of the following statements is true?**

Select correct option:

These price controls caused a chronic excess supply of natural gas.  
Consumers gained from the price controls, because consumer surplus was larger than it would have been under free market equilibrium.  
Producers gained from the price controls because producer surplus was larger than it would have been under free market equilibrium.  
This episode of price controls was unusual, because it resulted in no deadweight loss to society.

**36. A production function defines the output that can be produced:**

Select correct option:

At the lowest cost, given the inputs available.  
With the fewest amount of inputs.  
If the firm is technically efficient.  
In a given time period if no additional inputs are hired.

**37. A firm never operates:**

Select correct option:

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- At the minimum of its ATC curve.
- At the minimum of its AVC curve.
- On the downward-sloping portion of its ATC curve.
- On the downward-sloping portion of its AVC curve.

**38. Two firms, each producing different goods, can achieve a greater output than one firm producing both goods with the same inputs. We can conclude that the production process involves:**

Select correct option:

- Diseconomies of scope.
- Economies of scale.
- Decreasing returns to scale.
- Increasing returns to scale.

**39. In long-run competitive equilibrium, a firm that owns factors of production will have an:**

Select correct option:

- Economic profit = \$0 and accounting profit > \$0.
- Economic and accounting profit = \$0.
- Economic and accounting profit > \$0.
- Economic and accounting profit can take any value.

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**40. When a product transformation curve is bowed outward, there are \_\_\_\_\_ in production.**

- Economies of scope
- Economies of scale**
- Diseconomies of scope
- Diseconomies of scale

**41. The marginal rate of technical substitution is equal to the:**

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## ECO 402 Final Term Quiz

Slope of the total product curve.

Change in output minus the change in labor.

**Change in output divided by the change in labor.**

Ratio of the marginal products of the inputs.

**42. Consider two goods X and Y available for consumption. Assume that the price of X changes while the price of Y remains fixed. For these two goods, the price-consumption curve illustrates the:**

**Relationship between the price of X and consumption of Y.**

Utility-maximizing combinations of X and Y for each price of X.

Relationship between the price of Y and the consumption of X.

Utility-maximizing combinations of X and Y for each quantity of X.

**43. Assume that two investment opportunities have identical expected values of \$100,000. Investment A has a variance of 25,000, while investment B's variance is 10,000. We would expect most investors (who dislike risk) to prefer investment opportunity:**

A because it has less risk.

A because it provides higher potential earnings.

**B because it has less risk.**

B because of its higher potential earnings.

**44. The law of diminishing returns refers to diminishing:**

: Total returns.

**Marginal returns.**

Average returns.

All of the given option

**45.: If the isoquants are straight lines, then:**

: Inputs have fixed costs at all use rates.

**The marginal rate of technical substitution of inputs is constant.**

Only one combination of inputs is possible.

There are constant returns to scale.

H99s1: 4th

**46.: The total cost (TC) of producing computer software diskettes (Q) is given as:  $TC = 200 + 5Q$ . What is the variable cost?**

: 200

**5Q**

5

$5 + (200/Q)$

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**47. The demand curve facing a perfectly competitive firm is:**

The same as the market demand curve.

Downward-sloping and less flat than the market demand curve.

**Perfectly horizontal.**

Perfectly vertical.

**48.: The cost-output elasticity is used to measure:**

Economies of scope.

**Economies of scale.**

The curvature in the fixed cost curve.

Steepness of the production function.

:

**49. The budget line in portfolio analysis shows that:**

The expected return on a portfolio increases as the standard deviation of that return increases.

The expected return on a portfolio increases as the standard deviation of that return decreases.

**The expected return on a portfolio is constant.**

The standard deviation of a portfolio is constant.

**50. A Rolling Stones song goes: "You can't always get what you want." This echoes an important theme from microeconomics. Which of the following statements is the best example of this theme?**

Consumers must make the best purchasing decisions they can, given their limited incomes.  
Workers do not have as much leisure as they would like, given their wages and working conditions.

Workers in planned economies, such as North Korea, do not have much choice over jobs.

**Firms in market economies have limited financial resources.**

**51. Compared to a tariff, an import quota, which restricts imports to the same amount as the tariff, will leave the country as a whole:**

**Worse off than a comparable tariff.**

Not as bad off as a comparable tariff.

About the same as a comparable tariff.

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Any of the above can be true.

**52. Any combination of products inside the production possibility frontier is:**

- Allocatively inefficient
- Consumer inefficient
- Productively inefficient**
- None of the given option.

**53.: In the long run, which of the following is considered a variable cost?**

- Expenditures for wages.
- Expenditures for raw materials.
- Expenditures for capital machinery and equipment.**
- All of the given options.

**54. Two firms, each producing different goods, can achieve a greater output than one firm producing both goods with the same inputs. We can conclude that the production process involves:**

- : Diseconomies of scope.
- Economies of scale.**
- Decreasing returns to scale.
- Increasing returns to scale.

5

**55. The change in the quantity demanded of a good resulting from a change in relative price with the level of satisfaction held constant is called the \_\_\_\_\_ effect.**

**Select correct option:**

- Giffen
- Real price
- Income
- Substitution

**56. If a competitive firm's marginal cost always increases with output, then at the profit maximizing output level, producer surplus is:**

**Select correct option:**

- Zero because marginal costs equal marginal revenue.
- Zero because price equals marginal costs.
- Positive because price exceeds average variable costs.

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Positive because price exceeds average total costs.

**57. The concept of a risk premium applies to a person that is:  
Select correct option:**

- Risk averse.
- Risk neutral.
- Risk loving.
- All of the given options.

**58. Governments may successfully intervene in competitive markets in order to achieve economic efficiency:  
Select correct option:**

- At no time; competitive markets are always efficient without government intervention.
- In cases of positive externalities only.
- In cases of negative externalities only.
- In cases of both positive and negative externalities.

**59. What happens in a perfectly competitive industry when economic profit is greater than zero?**

Select correct option:

- Existing firms may get larger.
- New firms may enter the industry.
- Firms may move along their LRAC curves to new outputs.
- All of the given options.

**60. Which of the following is NOT true about price floors?**

Select correct option:

- Consumer surplus is always lower than it would be in the competitive equilibrium.
- Producer surplus could be lower, higher, or the same as it would be in competitive equilibrium.
- Producer surplus could be negative as the result of a price floor.
- Producers will often respond to a price floor by cutting production to the point at which price equals marginal cost.

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**61. Indifference curves that are convex to the origin reflect:**

Select correct option:

- An increasing marginal rate of substitution.
- A decreasing marginal rate of substitution.
- A constant marginal rate of substitution.
- A marginal rate of substitution that first decreases, then increases.

**62. Which of the following statements is true regarding the differences between economic and accounting costs?**

Select correct option:

- Accounting costs include all implicit and explicit costs.
- Economic costs include implied costs only.
- Accountants consider only implicit costs when calculating costs.
- Accounting costs include only explicit costs.

**63. Rabia and Samina are shopping for new cars (one each). Rabia expects to pay \$15,000 with 1/5 probability and \$20,000 with 4/5 probability. Samina expects to pay \$12,000 with 1/4 probability and \$20,000 with 3/4 probability. Refer to the above scenario, Rabia's expected expense for his car is:**

Select correct option:

- \$20,000.
- \$19,000.
- \$18,000.
- \$17,500.

**64. A decreasing-cost industry has a downward-sloping:**

Select correct option:

- Long-run marginal cost curve.
- Short-run average cost curve.

Short-run marginal cost curve.  
Long-run industry supply curve.

**65. Producer surplus is measured as the:**

Select correct option:

Area under the demand curve above market price.  
Entire area under the supply curve.  
Area under the demand curve above the supply curve.  
Area above the supply curve up to the market price.

**66. In a constant-cost industry, an increase in demand will be followed by:**

Select correct option:

No increase in supply.  
An increase in supply that will not change price from the higher level that occurs after the demand shift.  
An increase in supply that will bring price down to the level it was before the demand shift.  
An increase in supply that will bring price down below the level it was before the demand shift.

**67. The "perfect information" assumption of perfect competition includes all of the following except one. Which one?**

Select correct option:

Consumers know their preferences.  
Consumers know their income levels.  
Consumers know the prices available.  
Consumers can anticipate price changes.

**68. A Giffen good:**

Select correct option:

Is always the same as an inferior good.  
Is the special subset of inferior goods in which the substitution effect dominates the income effect.

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Is the special subset of inferior goods in which the income effect dominates the substitution effect.

Must have a downward sloping demand curve

**69. The object of diversification is:**

Select correct option:

To reduce risk and fluctuations in income.

To reduce risk, but not to reduce fluctuations in income.

To reduce fluctuations in income, but not to reduce risk.

Neither to reduce risk, nor to reduce fluctuations in income.

**70. A price support may be pictured by:**

Select correct option:

Shifting the demand curve to the right by the amount of the government purchase.

Shifting the demand curve to the left by the amount of the government purchase.

Shifting the supply curve to the right by the amount of the government purchase.

Shifting the supply curve to the left by the amount of the government purchase.

**71. Ali and Sarah decide to go into business together as economic consultants. Ali believes they have a 50-50 chance of earning \$200,000 a year, and that if they don't, they'll earn \$0. Sarah believes they have a 75% chance of earning \$100,000 and a 25% chance of earning \$10,000. Refer to the scenario, the probabilities discussed in the information above are:**

Select correct option:

Objective because they are single numbers rather than ranges.

Objective because they have been explicitly articulated by the individuals involved.

Subjective because the event hasn't happened yet.

Subjective because they are estimates made by individuals based upon personal judgment or experience.

**72. The law of diminishing returns refers to diminishing:**

Select correct option:

Total returns.

Marginal returns.

Average returns.

All of the given options.

**73. The marginal rate of technical substitution is equal to the:**

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Select correct option:

- Slope of the total product curve.
- Change in output minus the change in labor.
- Change in output divided by the change in labor.
- Ratio of the marginal products of the inputs.

**74. Boeing Corporation and Airbus Industries are the only two producers of long-range commercial aircraft. This market is not perfectly competitive because:**

Select correct option:

- Each company has annual sales over \$10 billion.
- Each company can significantly affect prices.
- Airbus cannot sell aircraft to the United States government.
- All of the given options.

**75. In a short run production process, the marginal cost is rising and the average total cost is falling as output is increased. Thus, marginal cost is:**

Select correct option:

- Below average total cost.
- Above average total cost.
- Between the average variable and average total cost curves.
- Below average fixed cost.

**76. In the short run, a perfectly competitive profit maximizing firm that has not shut down:**

Select correct option:

- Is operating on the downward-sloping portion of its AVC curve.
- Is operating at the minimum of its AVC curve.
- Is operating on the upward-sloping portion of its AVC curve.
- Is not operating on its AVC curve.

**77. When the federal government installs a price support program that requires the government to purchase all of a good not bought in the private economy at the support price, changes in producer surplus:**

Select correct option:

- Are negative.
- Are positive, but more than offset by the cost to consumers and the government.
- Are positive, and not offset by the cost to consumers and the government.
- None of the given options.

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**78. Rabia and Samina are shopping for new cars (one each). Rabia expects to pay \$15,000 with 1/5 probability and \$20,000 with 4/5 probability. Samina expects to pay \$12,000 with 1/4 probability and \$20,000 with 3/4 probability. Refer to the above scenario, Rabia's expected expense for his car is:**

Select correct option:

- \$20,000.
- \$19,000.
- \$18,000.
- \$17,500.

**79. Marginal utility measures:**

Select correct option:

- The slope of the indifference curve.
- The additional satisfaction from consuming one more unit of a good.
- The slope of the budget line.
- The marginal rate of substitution.

**80.**

**The endpoints (horizontal and vertical intercepts) of the budget line:**

Select correct option:

- Measure its slope.
- Measure the rate at which one good can be substituted for another.
- Measure the rate at which a consumer is willing to trade one good for another.
- Represent the quantity of each good that could be purchased if all of the budget were allocated to that good.

**81. Deadweight loss refers to:**

Select correct option:

- Losses in consumer surplus associated with excess government regulations.
- Situations where market prices fail to capture all of the costs and benefits of a policy.
- Net losses in total surplus.
- Losses due to the policies of labor unions.

**82.**

**the marginal product of an input is:**

Select correct option:

- Total product divided by the amount of the input used to produce this amount of output.

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The addition to total output that adds nothing to profit.  
The addition to total output due to the addition of one unit of all other inputs.  
The addition to total output due to the addition of the last unit of an input, holding all other inputs constant.

**83. If the isoquants are straight lines, then:**

Select correct option:

Inputs have fixed costs at all use rates.  
The marginal rate of technical substitution of inputs is constant.  
Only one combination of inputs is possible.  
There are constant returns to scale.

**84. Consider the following statements when answering this question: I. "In the long run equilibrium of a perfectly competitive market, a firm's producer surplus equals the sum of the economic rents earned on its inputs to production." II. "In the long run equilibrium of a perfectly competitive market, the amount of economic profit earned can differ across firms, but not the amount of producer surplus."**

Select correct option:

I and II are true.  
I is true, and II is false.  
I is false, and II is true.  
I and II are false.

**85. The amount of output that a firm decides to sell has no effect on the market price in a competitive industry because:**

Select correct option:

The market price is determined (through regulation) by the government.  
The firm supplies a different good than its rivals.  
The firm's output is a small fraction of the entire industry's output.  
The short run market price is determined solely by the firm's technology.

**86. Producer surplus is measured as the:**

Select correct option:

Area under the demand curve above market price.  
Entire area under the supply curve.  
Area under the demand curve above the supply curve.  
Area above the supply curve up to the market price.

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**87. price ceilings:**

Select correct option:

Always increase consumer surplus.

May decrease consumer surplus if demand is sufficiently elastic.

May decrease consumer surplus if demand is sufficiently inelastic.

Always decrease consumer surplus.

**88. An individual consumes only two goods, X and Y. Which of the following expressions represents the utility maximizing market basket?**

Select correct option:

MRS<sub>xy</sub> is at a maximum.

$P_x/P_y$  = money income.

MRS<sub>xy</sub> = money income.

MRS<sub>xy</sub> =  $P_x/P_y$ .

**89. In the long run, a firm's producer surplus is equal to the:**

Select correct option:

Economic rent it enjoys from its scarce inputs.

Revenue it earns in the long run.

Positive economic profit it earns in the long run.

Difference between total revenue and total variable costs.

**90. The marginal product of an input is:**

Select correct option:

Total product divided by the amount of the input used to produce this amount of output.

The addition to total output that adds nothing to profit.

The addition to total output due to the addition of one unit of all other inputs.

The addition to total output due to the addition of the last unit of an input, holding all other inputs constant.

**91. Assume that two investment opportunities have identical expected values of \$100,000. Investment A has a variance of 25,000, while investment B's variance is 10,000. We would expect most investors (who dislike risk) to prefer investment opportunity:**

Select correct option:

A because it has less risk.

A because it provides higher potential earnings.

B because it has less risk.

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## ECO 402 Final Term Quiz

B because of its higher potential earnings.

**92. The price elasticity of demand for a demand curve that has a zero slope is:**  
Select correct option:

- Zero.
- One.
- Negative but approaches zero as consumption increases.
- Infinity.

**93. A firm's producer surplus equals its economic profit when:**  
Select correct option:

- Average variable costs are minimized.
- Marginal costs equal marginal revenue.
- Fixed costs are zero.
- Total revenues equal total variable costs.

**94. The long run supply curve in a constant-cost industry is linear and:**  
Select correct option:

- Upward-sloping.
- Downward-sloping.
- Horizontal.
- Vertical.

**95. Prospective sunk costs:**

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Select correct option:

- Are relevant to economic decision-making.
- Are considered as investment decisions.
- Rise as output rises.
- Do not occur when output equals zero. 4th

**96. An isoquant:**

Select correct option:

- Must be linear.
- Cannot have a negative slope.
- Is a curve that shows all the combinations of inputs that yield the same total output.
- Is a curve that shows the maximum total output as a function of the level of labor input. 3rd

**97. Which of the following would cause a shift to the right of the supply curve for gasoline? I. A large increase in the price of public transportation. II. A large decrease in the price of automobiles. III. A large reduction in the costs of producing gasoline.**

Select correct option:

- I only.
- II only.
- III only.
- II and III only.

2nd

**98. If price is between AVC and ATC, the best and most practical thing for a perfectly competitive firm to do is:**

Select correct option:

- Raise prices.
- Lower prices to gain revenue from extra volume.
- Shut down immediately, but not liquidate the business.
- Continue operating, but plan to go out of business.

1st

**99. The amount of output that a firm decides to sell has no effect on the market price in a competitive industry because:**

Select correct option:

- The market price is determined (through regulation) by the government.
- The firm supplies a different good than its rivals.
- The firm's output is a small fraction of the entire industry's output.
- The short run market price is determined solely by the firm's technology.

1st

**100. The law of diminishing returns applies to:**

Select correct option:

- The short run only.
- The long run only.
- Both the short and the long run.
- Neither the short nor the long run.

3<sup>rd</sup>

**101. In an unregulated, competitive market consumer surplus exists because some:**

Select correct option:

- Sellers are willing to take a lower price than the equilibrium price.
- Consumers are willing to pay more than the equilibrium price.
- Sellers will only sell at prices above equilibrium price (or actual price).
- Consumers are willing to make purchases only if the price is below the actual price.

**102. Which of the following is a positive statement?**

Select correct option:

- The minimum wage should not be increased, because to do so would increase unemployment.
- Smoking should be restricted on all airline flights.
- All automobile passengers should be required to wear seatbelts in order to protect them against injury.
- None of the given options.

**103. Which of the following is true concerning the income effect of a decrease in price?**

Select correct option:

- It will lead to an increase in consumption only for a normal good.
- It always will lead to an increase in consumption.
- It will lead to an increase in consumption only for an inferior good.
- It will lead to an increase in consumption only for a Giffen good.

**104. Generally, long-run elasticities of supply are:**

Select correct option:

- Greater than short-run elasticities, because existing inventories can be exploited during shortages.

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## ECO 402 Final Term Quiz

Greater than short-run elasticities, because consumers have time to find substitutes for the good.

Greater than short-run elasticities, because firms can make alterations to plant size and input combinations to be more flexible in production.

Smaller than short-run elasticities, because the firm has made long-term commitments it cannot easily modify.

4th

## Eco 402 Final Term Quiz

**105. The "perfect information" assumption of perfect competition includes all of the following except one. Which one?**

Consumers know their preferences.

Consumers know their income levels.

Consumers know the prices available.

**Consumers can anticipate price changes.**

**106. Incremental cost is the same concept as \_\_\_\_\_ cost.**

Average

**Marginal**

Fixed

Variable

**107. A production function assumes a given:**

**Technology.**

Set of input prices.

Ratio of input prices.

Amount of output.

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## ECO 402 Final Term Quiz

108. Assume that beer is an inferior good. If the price of beer falls, then the substitution effect results in the person buying \_\_\_\_\_ of the good and the income effect results in the person buying \_\_\_\_\_ of the good.

More, more

More, less

**Less, more**

Less, less

109. Producer surplus for the whole market can be thought of as:

Total profit.

**Variable operating profit plus factor rents.**

Total profit minus factor rents earned by lower cost firms.

Total profit plus factor rents earned by lower cost firms.

110. Baba Burgers has discovered there are economies of scope available to the restaurant. Which is most likely to be a response to this discovery?

Baba expands burger production, focusing on that one good.

Baba contracts burger production.

**Baba adds grilled chicken sandwiches to the menu.**

Baba cuts back on the diversity of the menu.

111. The endpoints (horizontal and vertical intercepts) of the budget line:

Measure its slope.

Measure the rate at which one good can be substituted for another.

**Measure the rate at which a consumer is willing to trade one good for another.**

Represent the quantity of each good that could be purchased if all of the budget were allocated to that good.

112. The "perfect information" assumption of perfect competition includes all of the following except one. Which one?

Consumers know their preferences.

Consumers know their income levels.

Consumers know the prices available.

**Consumers can anticipate price changes.**

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## ECO 402 Final Term Quiz

**113. The difference between the economic and accounting costs of a firm are:**

**The accountant's fees.**

The corporate taxes on profits.

The opportunity costs of the factors of production that the firm owns.

The sunk costs incurred by the firm.

**114. Plastic and steel are substitutes in the production of body panels for certain automobiles. If the price of plastic increases, with other things remaining the same, we would expect:**

The price of steel to fall.

**The demand curve for steel to shift to the right.**

The demand curve for plastic to shift to the left.

The demand curve for steel to shift to the left.

Quiz 2

**115. Cost-output elasticity can be written and calculated as:**

**MC/AC.**

AC/MC

(AC)(MC)

(AC)<sup>2</sup>(MC)

**116. Fixed costs are fixed with respect to changes in:**

**Output.**

Capital expenditure.

Wages.

Time.

**117. The presence of a learning curve may induce a decision maker in a startup firm to choose:**

Low levels of output to exploit economies of scale.

High levels of output to exploit economies of scale.

Low levels of output to shift the average cost curve down over time.

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## ECO 402 Final Term Quiz

High levels of output to shift the average cost curve down over time.

**118. Which of the following is true regarding the relationship between returns to scale and economies of scope?**

A firm experiencing economies of scope must also experience increasing returns to scale.

**Economies of scale and economies of scope must occur together.**

A firm experiencing increasing returns to scale must also experience economies of scope.

There is no definite relationship between returns to scale and economies of scope.

**119. Salman would prefer a certain income of \$20,000 to a gamble with a 0.5 probability of \$10,000 and a 0.5 probability of \$30,000. Based on this information:**

We can infer that Salman is risk neutral.

We can infer that Salman is risk averse.

**We can infer that Salman is risk loving.**

We cannot infer Salman's risk preferences.

**120. When the average product is decreasing, marginal product:**

Equals average product.

Is increasing.

Exceeds average product.

**Is less than average product.**

**121. Government intervention can increase total welfare when:**

There are costs or benefits that are external to the market.

Consumers do not have perfect information about product quality.

**A high price makes the product unaffordable for most consumers.**

There are costs or benefits that are external to the market and consumers do not have perfect information about product quality.

**122. If a competitive firm's marginal cost curve is U-shaped then:**

Its short run supply curve is U-shaped too.

**Its short run supply curve is the downward-sloping portion of the marginal cost curve.**

Its short run supply curve is the upward-sloping portion of the marginal cost curve.

Its short run supply curve is the upward-sloping portion of the marginal cost curve that lies above the short run average variable cost curve.

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**123. Economies of scope refer to:**

**Changes in technology.**

The very long run.

Multiproduct firms.

Single product firms that utilize multiple plants.

**124. Although there are many reasons why a market can be non-competitive, the principal economic difference between a competitive and a non-competitive market is:**

The extent to which any firm can influence the price of the product.

The size of the firms in the market.

The annual sales made by the largest firms in the market.

**The presence of government intervention.**

**125. Indifference curves that are convex to the origin reflect:**

An increasing marginal rate of substitution.

**A decreasing marginal rate of substitution.**

A constant marginal rate of substitution.

A marginal rate of substitution that first decreases, then increases.

**126. The endpoints (horizontal and vertical intercepts) of the budget line:**

Measure its slope.

Measure the rate at which one good can be substituted for another.

**Measure the rate at which a consumer is willing to trade one good for another.**

Represent the quantity of each good that could be purchased if all of the budget were allocated to that good.

**127. Consider the following statements when answering this question: I. "In the long run equilibrium of a perfectly competitive market, a firm's producer surplus equals the sum of the economic rents earned on its inputs to production." II. "In the long run equilibrium of a perfectly competitive market, the amount of economic profit earned can differ across firms, but not the amount of producer surplus."**

I and II are true.

I is true, and II is false.

**I is false, and II is true.**

I and II are false.

**128. Suppose that the prices of good A and good B were to suddenly double. If good A is plotted along the horizontal axis:**

The budget line will become steeper.

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## ECO 402 Final Term Quiz

The budget line will become flatter.

The slope of the budget line will not change.

**The slope of the budget line will change, but in an indeterminate way.**

3

**129. A country's government would like to raise the price of one its most important agricultural crops, coffee beans. Which of the following government programs will result in higher prices for coffee beans?**

Select correct option:

An import quota on coffee beans.

An acreage limitation program which provides coffee bean farmers financial incentives to leave some of their acreage idle.

An import tariff on coffee beans.

**All of the given options.**

**130. Which of the following is NOT a generally accepted measure of the riskiness of an investment?**

Select correct option:

Standard deviation.

Expected value.

Variance.

**None of the given options.**

**131. Which of the following is a positive statement?**

Select correct option:

When the price of a good goes up, consumers buy less of it.

**When the price of a good goes up, firms produce more of it.**

When the Federal government sells bonds, interest rates rise and private investment is reduced.

All of the given options.

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**132. Rabia knows average total cost and average variable cost for a given level of output. Which of the following costs can she not determine given this information?**

Select correct option:

Average fixed cost

Fixed cost

Variable cost

**Rabia can determine all of the above costs given the information provided.**

**133. Which of the following is NOT true about price floors?**

Select correct option:

Consumer surplus is always lower than it would be in the competitive equilibrium.

Producer surplus could be lower, higher, or the same as it would be in competitive equilibrium.

Producer surplus could be negative as the result of a price floor.

**Producers will often respond to a price floor by cutting production to the point at which price equals marginal cost.**

**134. A production function in which the inputs are perfectly substitutable would have isoquants that are:**

Select correct option:

Convex to the origin.

L shaped.

Linear.

Concave to the origin.

**135. For an inferior good:**

Select correct option:

The price elasticity of demand is negative; the income elasticity of demand is negative.

The price elasticity of demand is positive; the income elasticity of demand is negative.

**The price elasticity of demand is negative; the income elasticity of demand is positive.**

The price elasticity of demand is positive; the income elasticity of demand is positive.

**136. The short run is:**  
Select correct option:

- Less than a year.
- Three years.
- However long it takes to produce the planned output.
- A time period in which at least one input is fixed.

**137. Any combination of products inside the production possibility frontier is:**  
Select correct option:

- Allocatively inefficient
- Consumer inefficient
- Productively inefficient
- None of the given option.

**138. Which of the following is NOT an assumption regarding people's preferences in the theory of consumer behavior?**  
Select correct option:

- Preferences are complete.
- Preferences are transitive.
- Consumers prefer more of a good to less.
- None of the given options.

**139. In 1970s the federal government imposed price controls on natural gas. Which of the following statements is true?**  
Select correct option:

- These price controls caused a chronic excess supply of natural gas.
- Consumers gained from the price controls, because consumer surplus was larger than it would have been under free market equilibrium.
- Producers gained from the price controls because producer surplus was larger than it would have been under free market equilibrium.
- This episode of price controls was unusual, because it resulted in no deadweight loss to society.

**140. A production function defines the output that can be produced:**

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## ECO 402 Final Term Quiz

Select correct option:

- At the lowest cost, given the inputs available.
- With the fewest amount of inputs.
- If the firm is technically efficient.
- In a given time period if no additional inputs are hired.

**141. A firm never operates:**

Select correct option:

- At the minimum of its ATC curve.
- At the minimum of its AVC curve.
- On the downward-sloping portion of its ATC curve.
- On the downward-sloping portion of its AVC curve.

**142. Two firms, each producing different goods, can achieve a greater output than one firm producing both goods with the same inputs. We can conclude that the production process involves:**

Select correct option:

- Diseconomies of scope.
- Economies of scale.
- Decreasing returns to scale.
- Increasing returns to scale.

**143. In long-run competitive equilibrium, a firm that owns factors of production will have an:**

Select correct option:

- Economic profit = \$0 and accounting profit > \$0.
- Economic and accounting profit = \$0.
- Economic and accounting profit > \$0.

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Economic and accounting profit can take any value.

4

**144. When a product transformation curve is bowed outward, there are \_\_\_\_\_ in production.**

Economies of scope

**Economies of scale**

Diseconomies of scope

Diseconomies of scale

**145. The marginal rate of technical substitution is equal to the:**

Slope of the total product curve.

Change in output minus the change in labor.

**Change in output divided by the change in labor.**

Ratio of the marginal products of the inputs.

**146. Consider two goods X and Y available for consumption. Assume that the price of X changes while the price of Y remains fixed. For these two goods, the price-consumption curve illustrates the:**

**Relationship between the price of X and consumption of Y.**

Utility-maximizing combinations of X and Y for each price of X.

Relationship between the price of Y and the consumption of X.

Utility-maximizing combinations of X and Y for each quantity of X.

**147. Assume that two investment opportunities have identical expected values of \$100,000. Investment A has a variance of 25,000, while investment B's variance is 10,000. We would expect most investors (who dislike risk) to prefer investment opportunity:**

A because it has less risk.

A because it provides higher potential earnings.

**B because it has less risk.**

B because of its higher potential earnings.

**148. The law of diminishing returns refers to diminishing:**

: Total returns.

**Marginal returns.**

Average returns.

All of the given option

**149. : If the isoquants are straight lines, then:**

: Inputs have fixed costs at all use rates.

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## ECO 402 Final Term Quiz

**The marginal rate of technical substitution of inputs is constant.**

Only one combination of inputs is possible.

There are constant returns to scale.

H99s1: 4th

**150. : The total cost (TC) of producing computer software diskettes (Q) is given as:  
TC = 200 + 5Q. What is the variable cost?**

: 200

**5Q**

5

5 + (200/Q)

**151. The demand curve facing a perfectly competitive firm is:**

The same as the market demand curve.

Downward-sloping and less flat than the market demand curve.

**Perfectly horizontal.**

Perfectly vertical.

**152. : The cost-output elasticity is used to measure:**

Economies of scope.

**Economies of scale.**

The curvature in the fixed cost curve.

Steepness of the production function.

:

**153. The budget line in portfolio analysis shows that:**

The expected return on a portfolio increases as the standard deviation of that return increases.

The expected return on a portfolio increases as the standard deviation of that return decreases.

**The expected return on a portfolio is constant.**

The standard deviation of a portfolio is constant.

**154. A Rolling Stones song goes: "You can't always get what you want." This echoes an important theme from microeconomics. Which of the following statements is the best example of this theme?**

Consumers must make the best purchasing decisions they can, given their limited incomes.

Workers do not have as much leisure as they would like, given their wages and working conditions.

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## ECO 402 Final Term Quiz

Workers in planned economies, such as North Korea, do not have much choice over jobs.  
**Firms in market economies have limited financial resources.**

**155. Compared to a tariff, an import quota, which restricts imports to the same amount as the tariff, will leave the country as a whole:**

**Worse off than a comparable tariff.**

Not as bad off as a comparable tariff.

About the same as a comparable tariff.

Any of the above can be true.

**156. Any combination of products inside the production possibility frontier is:**

Allocatively inefficient

Consumer inefficient

**Productively inefficient**

None of the given option.

**157. : In the long run, which of the following is considered a variable cost?**

Expenditures for wages.

Expenditures for raw materials.

**Expenditures for capital machinery and equipment.**

All of the given options.

**158. Two firms, each producing different goods, can achieve a greater output than one firm producing both goods with the same inputs. We can conclude that the production process involves:**

: Diseconomies of scope.

**Economies of scale.**

Decreasing returns to scale.

Increasing returns to scale.

5

**159. The change in the quantity demanded of a good resulting from a change in relative price with the level of satisfaction held constant is called the \_\_\_\_\_ effect.**

**Select correct option:**

Giffen

Real price

Income

Substitution

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**160. If a competitive firm's marginal cost always increases with output, then at the profit maximizing output level, producer surplus is:**  
**Select correct option:**

- Zero because marginal costs equal marginal revenue.
- Zero because price equals marginal costs.
- Positive because price exceeds average variable costs.
- Positive because price exceeds average total costs.

**161. The concept of a risk premium applies to a person that is:**  
**Select correct option:**

- Risk averse.
- Risk neutral.
- Risk loving.
- All of the given options.

**162. Governments may successfully intervene in competitive markets in order to achieve economic efficiency:**  
**Select correct option:**

- At no time; competitive markets are always efficient without government intervention.
- In cases of positive externalities only.
- In cases of negative externalities only.
- In cases of both positive and negative externalities.

**163. What happens in a perfectly competitive industry when economic profit is greater than zero?**  
**Select correct option:**

- Existing firms may get larger.
- New firms may enter the industry.
- Firms may move along their LRAC curves to new outputs.
- All of the given options.

**164. Which of the following is NOT true about price floors?**

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## ECO 402 Final Term Quiz

Select correct option:

Consumer surplus is always lower than it would be in the competitive equilibrium.  
Producer surplus could be lower, higher, or the same as it would be in competitive equilibrium.  
Producer surplus could be negative as the result of a price floor.  
Producers will often respond to a price floor by cutting production to the point at which price equals marginal cost.

**165. Indifference curves that are convex to the origin reflect:**

Select correct option:

An increasing marginal rate of substitution.  
A decreasing marginal rate of substitution.  
A constant marginal rate of substitution.  
A marginal rate of substitution that first decreases, then increases.

**166. Which of the following statements is true regarding the differences between economic and accounting costs?**

Select correct option:

Accounting costs include all implicit and explicit costs.  
Economic costs include implied costs only.  
Accountants consider only implicit costs when calculating costs.  
Accounting costs include only explicit costs.

**167. Rabia and Samina are shopping for new cars (one each). Rabia expects to pay \$15,000 with 1/5 probability and \$20,000 with 4/5 probability. Samina expects to pay \$12,000 with 1/4 probability and \$20,000 with 3/4 probability. Refer to the above scenario, Rabia's expected expense for his car is:**

Select correct option:

\$20,000.  
\$19,000.

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\$18,000.  
\$17,500.

**168. A decreasing-cost industry has a downward-sloping:**  
Select correct option:

Long-run marginal cost curve.  
Short-run average cost curve.  
Short-run marginal cost curve.  
Long-run industry supply curve.

**169. Producer surplus is measured as the:**  
Select correct option:

Area under the demand curve above market price.  
Entire area under the supply curve.  
Area under the demand curve above the supply curve.  
Area above the supply curve up to the market price.

**170. In a constant-cost industry, an increase in demand will be followed by:**  
Select correct option:

No increase in supply.  
An increase in supply that will not change price from the higher level that occurs after the demand shift.  
An increase in supply that will bring price down to the level it was before the demand shift.  
An increase in supply that will bring price down below the level it was before the demand shift.

**171. The "perfect information" assumption of perfect competition includes all of the following except one. Which one?**  
Select correct option:

Consumers know their preferences.  
Consumers know their income levels.  
Consumers know the prices available.  
Consumers can anticipate price changes.

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**172. A Giffen good:**

Select correct option:

Is always the same as an inferior good.

Is the special subset of inferior goods in which the substitution effect dominates the income effect.

Is the special subset of inferior goods in which the income effect dominates the substitution effect.

Must have a downward sloping demand curve

**173. The object of diversification is:**

Select correct option:

To reduce risk and fluctuations in income.

To reduce risk, but not to reduce fluctuations in income.

To reduce fluctuations in income, but not to reduce risk.

Neither to reduce risk, nor to reduce fluctuations in income.

**174. A price support may be pictured by:**

Select correct option:

Shifting the demand curve to the right by the amount of the government purchase.

Shifting the demand curve to the left by the amount of the government purchase.

Shifting the supply curve to the right by the amount of the government purchase.

Shifting the supply curve to the left by the amount of the government purchase.

**175. Ali and Sarah decide to go into business together as economic consultants. Ali believes they have a 50-50 chance of earning \$200,000 a year, and that if they don't, they'll earn \$0. Sarah believes they have a 75% chance of earning \$100,000 and a 25% chance of earning \$10,000. Refer to the scenario, the probabilities discussed in the information above are:**

Select correct option:

Objective because they are single numbers rather than ranges.

Objective because they have been explicitly articulated by the individuals involved.

Subjective because the event hasn't happened yet.

Subjective because they are estimates made by individuals based upon personal judgment or experience.

**176. The law of diminishing returns refers to diminishing:**

Select correct option:

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Total returns.  
Marginal returns.  
Average returns.  
All of the given options.

**177. The marginal rate of technical substitution is equal to the:**

Select correct option:

Slope of the total product curve.  
Change in output minus the change in labor.  
Change in output divided by the change in labor.  
Ratio of the marginal products of the inputs.

**178. Boeing Corporation and Airbus Industries are the only two producers of long-range commercial aircraft. This market is not perfectly competitive because:**

Select correct option:

Each company has annual sales over \$10 billion.  
Each company can significantly affect prices.  
Airbus cannot sell aircraft to the United States government.  
All of the given options.

**179. In a short run production process, the marginal cost is rising and the average total cost is falling as output is increased. Thus, marginal cost is:**

Select correct option:

Below average total cost.  
Above average total cost.  
Between the average variable and average total cost curves.  
Below average fixed cost.

**180. In the short run, a perfectly competitive profit maximizing firm that has not shut down:**

Select correct option:

Is operating on the downward-sloping portion of its AVC curve.  
Is operating at the minimum of its AVC curve.  
Is operating on the upward-sloping portion of its AVC curve.  
Is not operating on its AVC curve.

**181. When the federal government installs a price support program that requires the government to purchase all of a good not bought in the private economy at the support price, changes in producer surplus:**

Select correct option:

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Are negative.

Are positive, but more than offset by the cost to consumers and the government.

Are positive, and not offset by the cost to consumers and the government.

None of the given options.

**182. Rabia and Samina are shopping for new cars (one each). Rabia expects to pay \$15,000 with 1/5 probability and \$20,000 with 4/5 probability. Samina expects to pay \$12,000 with 1/4 probability and \$20,000 with 3/4 probability. Refer to the above scenario, Rabia's expected expense for his car is:**

Select correct option:

\$20,000.

\$19,000.

\$18,000.

\$17,500.

**183. Marginal utility measures:**

Select correct option:

The slope of the indifference curve.

The additional satisfaction from consuming one more unit of a good.

The slope of the budget line.

The marginal rate of substitution.

**184.**

**The endpoints (horizontal and vertical intercepts) of the budget line:**

Select correct option:

Measure its slope.

Measure the rate at which one good can be substituted for another.

Measure the rate at which a consumer is willing to trade one good for another.

Represent the quantity of each good that could be purchased if all of the budget were allocated to that good.

**185. Deadweight loss refers to:**

Select correct option:

Losses in consumer surplus associated with excess government regulations.

Situations where market prices fail to capture all of the costs and benefits of a policy.

Net losses in total surplus.

Losses due to the policies of labor unions.

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186.

**the marginal product of an input is:**

Select correct option:

Total product divided by the amount of the input used to produce this amount of output.

The addition to total output that adds nothing to profit.

The addition to total output due to the addition of one unit of all other inputs.

The addition to total output due to the addition of the last unit of an input, holding all other inputs constant.

187.

**If the isoquants are straight lines, then:**

Select correct option:

Inputs have fixed costs at all use rates.

The marginal rate of technical substitution of inputs is constant.

Only one combination of inputs is possible.

There are constant returns to scale.

188.

**Consider the following statements when answering this question: I. "In the long run equilibrium of a perfectly competitive market, a firm's producer surplus equals the sum of the economic rents earned on its inputs to production." II. "In the long run equilibrium of a perfectly competitive market, the amount of economic profit earned can differ across firms, but not the amount of producer surplus."**

Select correct option:

I and II are true.

I is true, and II is false.

I is false, and II is true.

I and II are false.

189.

**The amount of output that a firm decides to sell has no effect on the market price in a competitive industry because:**

Select correct option:

The market price is determined (through regulation) by the government.

The firm supplies a different good than its rivals.

The firm's output is a small fraction of the entire industry's output.

The short run market price is determined solely by the firm's technology.

190.

**Producer surplus is measured as the:**

Select correct option:

Area under the demand curve above market price.

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Entire area under the supply curve.  
Area under the demand curve above the supply curve.  
Area above the supply curve up to the market price.

**191. price ceilings:**

Select correct option:

Always increase consumer surplus.  
May decrease consumer surplus if demand is sufficiently elastic.  
May decrease consumer surplus if demand is sufficiently inelastic.  
Always decrease consumer surplus.

**192. An individual consumes only two goods, X and Y. Which of the following expressions represents the utility maximizing market basket?**

Select correct option:

$MRS_{xy}$  is at a maximum.  
 $P_x/P_y = \text{money income}$ .  
 $MRS_{xy} = \text{money income}$ .  
 $MRS_{xy} = P_x/P_y$ .

**193. In the long run, a firm's producer surplus is equal to the:**

Select correct option:

Economic rent it enjoys from its scarce inputs.  
Revenue it earns in the long run.  
Positive economic profit it earns in the long run.  
Difference between total revenue and total variable costs.

**194. The marginal product of an input is:**

Select correct option:

Total product divided by the amount of the input used to produce this amount of output.  
The addition to total output that adds nothing to profit.  
The addition to total output due to the addition of one unit of all other inputs.  
The addition to total output due to the addition of the last unit of an input, holding all other inputs constant.

**195. Assume that two investment opportunities have identical expected values of \$100,000. Investment A has a variance of 25,000, while investment B's variance is 10,000. We would expect most investors (who dislike risk) to prefer investment opportunity:**

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## ECO 402 Final Term Quiz

Select correct option:

- A because it has less risk.
- A because it provides higher potential earnings.
- B because it has less risk.
- B because of its higher potential earnings.

**196. The price elasticity of demand for a demand curve that has a zero slope is:**  
Select correct option:

- Zero.
- One.
- Negative but approaches zero as consumption increases.
- Infinity.

**197. A firm's producer surplus equals its economic profit when:**  
Select correct option:

- Average variable costs are minimized.
- Marginal costs equal marginal revenue.
- Fixed costs are zero.
- Total revenues equal total variable costs.

**198. The long run supply curve in a constant-cost industry is linear and:**  
Select correct option:

- Upward-sloping.
- Downward-sloping.
- Horizontal.
- Vertical.

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**199. Prospective sunk costs:**

Select correct option:

- Are relevant to economic decision-making.
- Are considered as investment decisions.
- Rise as output rises.
- Do not occur when output equals zero. 4th

**200. An isoquant:**

Select correct option:

- Must be linear.
- Cannot have a negative slope.
- Is a curve that shows all the combinations of inputs that yield the same total output.
- Is a curve that shows the maximum total output as a function of the level of labor input. 3rd

**201. Which of the following would cause a shift to the right of the supply curve for gasoline? I. A large increase in the price of public transportation. II. A large decrease in the price of automobiles. III. A large reduction in the costs of producing gasoline.**

Select correct option:

- I only.
- II only.
- III only.
- II and III only.

2nd

**202. If price is between AVC and ATC, the best and most practical thing for a perfectly competitive firm to do is:**

Select correct option:

- Raise prices.
- Lower prices to gain revenue from extra volume.
- Shut down immediately, but not liquidate the business.
- Continue operating, but plan to go out of business.

1st

**203. The amount of output that a firm decides to sell has no effect on the market price in a competitive industry because:**

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## ECO 402 Final Term Quiz

Select correct option:

- The market price is determined (through regulation) by the government.
- The firm supplies a different good than its rivals.
- The firm's output is a small fraction of the entire industry's output.
- The short run market price is determined solely by the firm's technology.

1<sup>st</sup>

**204. The law of diminishing returns applies to:**

Select correct option:

- The short run only.
- The long run only.
- Both the short and the long run.
- Neither the short nor the long run.

3<sup>rd</sup>

**205. In an unregulated, competitive market consumer surplus exists because some:**

Select correct option:

- Sellers are willing to take a lower price than the equilibrium price.
- Consumers are willing to pay more than the equilibrium price.
- Sellers will only sell at prices above equilibrium price (or actual price).
- Consumers are willing to make purchases only if the price is below the actual price.

**206. Which of the following is a positive statement?**

Select correct option:

- The minimum wage should not be increased, because to do so would increase unemployment.
- Smoking should be restricted on all airline flights.
- All automobile passengers should be required to wear seatbelts in order to protect them against injury.
- None of the given options.

**207. Which of the following is true concerning the income effect of a decrease in price?**

Select correct option:

- It will lead to an increase in consumption only for a normal good.
- It always will lead to an increase in consumption.
- It will lead to an increase in consumption only for an inferior good.
- It will lead to an increase in consumption only for a Giffen good.

**208. Generally, long-run elasticities of supply are:**

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## ECO 402 Final Term Quiz

Select correct option:

Greater than short-run elasticities, because existing inventories can be exploited during shortages.

Greater than short-run elasticities, because consumers have time to find substitutes for the good.

Greater than short-run elasticities, because firms can make alterations to plant size and input combinations to be more flexible in production.

Smaller than short-run elasticities, because the firm has made long-term commitments it cannot easily modify.

4th

### Eco 402 final term quiz file 2

#### 1. The marginal product of an input is:

Select correct option:

Total product divided by the amount of the input used to produce this amount of output.

The addition to total output that adds nothing to profit.

**The addition to total output due to the addition of one unit of all other inputs.**

The addition to total output due to the addition of the last unit of an input, holding all other inputs constant.

#### 2. Which of the following would cause a shift to the right of the supply curve for gasoline? I. A large increase in the price of public transportation. II. A large decrease in the price of automobiles. III. A large reduction in the costs of producing gasoline.

Select correct option:

**I only.**

II only.

**III only.**

II and III only.

#### 3. Incremental cost is the same concept as \_\_\_\_\_ cost.

Select correct option:

Average

**Marginal**

Fixed

Variable

#### 4. Which of the following assets is almost riskless?

Select correct option:

Common stocks

Long-term corporate bonds

U.S. treasury bills

**Long-term government bonds**

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## ECO 402 Final Term Quiz

**5. Consider the following statements when answering this question: I. "In the long run, if a firm wants to remain in a competitive industry then it needs to own resources that are in limited supply." II. "In this competitive market our firm's long run survival depends only on the efficiency of our production process."**

Select correct option:

**I and II are true.**

I is true, and II is false.

I is false, and II is true.

I and II are false.

**6. Above-normal profits are guaranteed for:**

Select correct option:

A monopoly, but not a perfectly competitive firm.

A perfectly competitive firm, but not a monopoly.

Both a monopoly and a perfectly competitive firm.

Neither a monopoly nor a perfectly competitive firm.

**7. The benefit of a subsidy accrues mostly to consumers:**

Select correct option:

In every instance.

If  $E_d/E_s$  is large.

**If  $E_d/E_s$  is small.**

If  $E_d$  and  $E_s$  are equal.

**8. The cost-output elasticity is used to measure:**

Select correct option:

Economies of scope.

**Economies of scale.**

The curvature in the fixed cost curve.

Steepness of the production function.

**9. A firm maximizes profit by operating at the level of output where:**

Select correct option:

Average revenue equals average cost.

Average revenue equals average variable cost.

**Total costs are minimized.**

**Marginal revenue equals marginal cost.**

**10. A firm's producer surplus equals its economic profit when:**

Select correct option:

Average variable costs are minimized.

Marginal costs equal marginal revenue.

Fixed costs are zero.

Total revenues equal total variable costs.

**11. The price of good A goes up. As a result the demand for good B shifts to the left. From this we can infer that:**

Select correct option:



## ECO 402 Final Term Quiz

Good A is used to produce good B.  
Good B is used to produce good A.  
**Goods A and B are substitutes.**  
Goods A and B are complements.

### 12. Deadweight loss refers to:

Select correct option:  
Losses in consumer surplus associated with excess government regulations.  
Situations where market prices fail to capture all of the costs and benefits of a policy.  
**Net losses in total surplus.**  
Losses due to the policies of labor unions.

**13. Assume that a firm spends \$500 on two inputs, labor (graphed on the horizontal axis) and capital (graphed on the vertical axis). If the wage rate is \$20 per hour and the rental cost of capital is \$25 per hour, the slope of the isocost curve will be:**

Select correct option:  
500  
25/500  
**- 4/5**  
25/20 or 1/4

### 14. Which of the following is true regarding income along a price consumption curve?

Select correct option:  
Income is increasing.  
Income is decreasing.  
**Income is constant.**  
The level of income depends on the level of utility.

## Quiz 2

### 15. Government intervention can increase total welfare when:

Select correct option:  
There are costs or benefits that are external to the market.  
Consumers do not have perfect information about product quality.  
A high price makes the product unaffordable for most consumers.  
There are costs or benefits that are external to the market and consumers do not have perfect information about product quality.

### 16. What does it mean when the CPI is higher this year than last?

## ECO 402 Final Term Quiz

Select correct option:

The rate of inflation has increased.

There has been inflation since last year.

Real prices have increased.

Real prices have decreased.

**17. Which of the following would cause a shift to the right of the supply curve for gasoline? I. A large increase in the price of public transportation. II. A large decrease in the price of automobiles. III. A large reduction in the costs of producing gasoline.**

Select correct option:

**I only.**

II only.

III only.

II and III only.

**18. Fixed costs are fixed with respect to changes in:**

Select correct option:

Output.

Capital expenditure.

Wages.

Time.

**19. Which of the following is NOT true regarding monopoly?**

Select correct option:

Monopoly is the sole producer in the market.

Monopoly price is determined from the demand curve.

## ECO 402 Final Term Quiz

Monopolist can charge as high a price as it likes.

Monopoly demand curve is downward sloping.

**20. Jane is trying to decide which courses to take next semester. She has narrowed down her choice to two courses Microeconomics and Macroeconomics. Now she is having trouble. She just cannot decide which of the two courses to take. It's not that she is indifferent between the two courses, she just cannot decide. An economist would say that this is an example of preferences that:**

Select correct option:

Are not transitive.

Are incomplete.

Violate the assumption that more is preferred to less.

**All of the given options.**

**21. Technological improvement:**

Select correct option:

Can hide the presence of diminishing returns.

Can be shown as a shift in the total product curve.

Allows more output to be produced with the same combination of inputs.

**All of the given options are true.**

**22. Rabia and Samina are shopping for new cars (one each). Rabia expects to pay \$15,000 with 1/5 probability and \$20,000 with 4/5 probability. Samina expects to pay \$12,000 with 1/4 probability and \$20,000 with 3/4 probability. Refer to the above scenario, which of the following is true?**

Select correct option:

Rabia has a higher expected expense than Samina for the car.

Rabia has a lower expected expense than Samina for the car.

Rabia and Samina have the same expected expense for the car, and it is somewhat less than \$20,000.

## ECO 402 Final Term Quiz

It is not possible to calculate the expected expense for the car until the true probabilities are known.

**23. A firm never operates:**

Select correct option:

At the minimum of its ATC curve.

At the minimum of its AVC curve.

On the downward-sloping portion of its ATC curve.

On the downward-sloping portion of its AVC curve.

**24. Assume that one of two possible outcomes will follow a decision. One outcome yields a \$75 payoff and has a probability of 0.3; the other outcome has a \$125 payoff and has a probability of 0.7. In this case the expected value is:**

Select correct option:

\$85.

\$60.

\$110.

\$35.

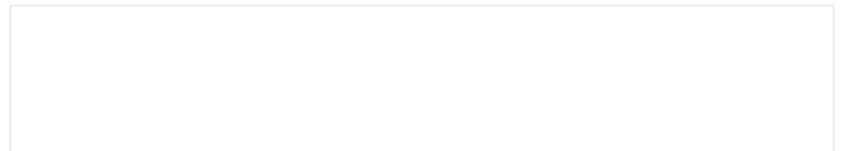
**25. Good A is a normal good. The demand curve for good A:**

Select correct option:

**Slopes downward.**

Usually slopes downward, but could slope upward.

Slopes upward.



## ECO 402 Final Term Quiz

Usually slopes upward, but could slope downward.

**26. The function which shows combinations of inputs that yield the same output is called a(n):**

Select correct option:

Isoquant curve.

**Isocost curve.**

Production function.

Production possibilities frontier.

**27. The snob effect corresponds best to a:**

Select correct option:

Negative network externality.

Giffen good.

Positive network externality.

Bandwagon effect.

**28. In the long run, which of the following is considered a variable cost?**

Select correct option:

Expenditures for wages.

Expenditures for raw materials.

Expenditures for capital machinery and equipment.

All of the given options.

**29. When people pay a monthly fee to have a hookup to the telephone company's line plus a fee for each call actually made, we would say that the telephone company is using:**

Select correct option:

Limit pricing.

## ECO 402 Final Term Quiz

A two-part tariff.

Second-degree price discrimination.

Two stage price discrimination.

Quiz 3

**30. The price elasticity of demand for a demand curve that has a zero slope is:**

Select correct option:

Zero.

One.

Negative but approaches zero as consumption increases.

**Infinity.**

**31. The concept of a risk premium applies to a person that is:**

Select correct option:

**Risk averse.**

Risk neutral.

Risk loving.

All of the given options.

**32. Price ceilings:**

Select correct option:

Always increase consumer surplus.

**May decrease consumer surplus if demand is sufficiently elastic.**

May decrease consumer surplus if demand is sufficiently inelastic.

Always decrease consumer surplus.

**33. The demand for books is:  $Q_d = 120 - P$  The supply of books is:  $Q_s = 5P$  Refer to the above scenario, if  $P = \$15$ , which of the following is true?**

## ECO 402 Final Term Quiz

Select correct option:

**There is a surplus equal to 30.**

There is a shortage equal to 30.

There is a surplus, but it is impossible to determine how large.

There is a shortage, but it is impossible to determine how large

**34. A firm maximizes profit by operating at the level of output where:**

Select correct option:

Average revenue equals average cost.

Average revenue equals average variable cost.

Total costs are minimized.

**Marginal revenue equals marginal cost.**

**35. If  $P_x = P_y$ , then when the consumer maximizes utility:**

Select correct option:

X must equal Y.

**MU(X) must equal MU(Y).**

MU(X) may equal MU(Y), but it is not necessarily so.

X and Y must be substitutes.

**36. Consider the following statements when answering this question: I. "In the long run, if a firm wants to remain in a competitive industry then it needs to own resources that are in limited supply." II. "In this competitive market our firm's long run survival depends only on the efficiency of our production process."**

Select correct option:

I and II are true.

## ECO 402 Final Term Quiz

I is true, and II is false.

**I is false, and II is true. (Not Sure)**

I and II are false.

**37. An investment opportunity is a sure thing; it will pay off \$100 regardless of which of the three possible outcomes comes to pass. The variance of this investment opportunity:**

Select correct option:

**Is 0.**

Is 1.

Is 2.

Is -1.

**38. If X and Y are perfect substitutes, which of the following assumptions about indifference curves is not satisfied?**

Select correct option:

Completeness.

**Transitivity.**

More is preferred to less.

Diminishing marginal rate of substitution.

**39. If the market price for a competitive firm's output doubles then:**

Select correct option:

The profit maximizing output will double.

The marginal revenue doubles.

**At the new profit maximizing output, price has increased more than marginal cost.**

At the new profit maximizing output, price has risen more than marginal revenue.

**40. The long run supply curve in a constant-cost industry is linear and:**



## ECO 402 Final Term Quiz

Select correct option:

**Upward-sloping.**

Downward-sloping.

Horizontal.

Vertical.

### **41. Marginal revenue, graphically, is:**

Select correct option:

**The slope of a line from the origin to a point on the total revenue curve.**

The slope of a line from the origin to the end of the total revenue curve.

The slope of the total revenue curve at a given point.

The vertical intercept of a line tangent to the total revenue curve at a given point.

### **42. Elasticity measures:**

Select correct option:

The slope of a demand curve.

The inverse of the slope of a demand curve.

**The percentage change in one variable in response to a one percent increase in another variable.**

Sensitivity of price to a change in quantity.

### **Which of the following is a positive statement?**

Select correct option:

The minimum wage should not be increased, because to do so would increase unemployment.

Smoking should be restricted on all airline flights.

All automobile passengers should be required to wear seatbelts in order to protect them against injury.

**None of the given options.**

## ECO 402 Final Term Quiz

43. The "perfect information" assumption of perfect competition includes all of the following except one. Which one?

Select correct option:

Consumers know their preferences.

Consumers know their income levels.

Consumers know the prices available.

**Consumers can anticipate price changes.**

### Quiz 4

44. In 1970s the federal government imposed price controls on natural gas. Which of the following statements is true?

Select correct option:

These price controls caused a chronic excess supply of natural gas.

Consumers gained from the price controls, because consumer surplus was larger than it would have been under free market equilibrium.

Producers gained from the price controls because producer surplus was larger than it would have been under free market equilibrium.

This episode of price controls was unusual, because it resulted in no deadweight loss to society.

10:09 PM me: a

45. Our economy is characterized by:

Select correct option:

**Unlimited wants and needs**

Unlimited material resources

No energy resources

Abundant productive labor

me: a

46. 10:10 PM A Rolling Stones song goes: "You can't always get what you want." This echoes an important theme from microeconomics. Which of the following statements is the best example of this theme?

Select correct option:

**Consumers must make the best purchasing decisions they can, given their limited incomes.**

Workers do not have as much leisure as they would like, given their wages and working conditions.

Workers in planned economies, such as North Korea, do not have much choice over jobs.

Firms in market economies have limited financial resources.

me: a

47. 10:11 PM The slope of the total product curve is the:

Select correct option:

## ECO 402 Final Term Quiz

Average product.  
Slope of a line from the origin to the point.  
Marginal product.  
Marginal rate of technical substitution.

me: d  
?

48. **10:12 PM A firm never operates:**

Select correct option:

At the minimum of its ATC curve.  
At the minimum of its AVC curve.  
On the downward-sloping portion of its ATC curve.  
On the downward-sloping portion of its AVC curve.

me: a

49. **10:13 PM Indifference curves that are convex to the origin reflect:**

Select correct option:

An increasing marginal rate of substitution.  
**A decreasing marginal rate of substitution.**  
A constant marginal rate of substitution.  
A marginal rate of substitution that first decreases, then increases.

me: b

50. **What does it mean when the CPI is higher this year than last?**

Select correct option:

The rate of inflation has increased.  
There has been inflation since last year.  
Real prices have increased.  
Real prices have decreased.

me: c

51. **The presence of a learning curve may induce a decision maker in a startup firm to choose:**

Select correct option:

Low levels of output to exploit economies of scale.  
High levels of output to exploit economies of scale.  
Low levels of output to shift the average cost curve down over time.  
High levels of output to shift the average cost curve down over time.

10:15 PM me: d

52. **Assume that beer is an inferior good. If the price of beer falls, then the substitution effect results in the person buying \_\_\_\_ of the good and the income effect results in the person buying \_\_\_\_ of the good.**

Select correct option:

More, more  
More, less  
Less, more  
Less, less

10:16 PM me: c

## ECO 402 Final Term Quiz

53. **The change in the price of one good has no effect on the quantity demanded of another good.**

**These goods are:**

Select correct option:

Complements.

Substitutes.

Both inferior.

None of the given options.

10:17 PM me: a

54. **A person with a diminishing marginal utility of income:**

Select correct option:

Will be risk averse.

Will be risk neutral.

Will be risk loving.

Cannot decide without more information.

10:18 PM me: a

55. **If indifference curves cross, then: Figure Based on figure given above, it can be inferred that:**

Select correct option:

The assumption of a diminishing marginal rate of substitution is violated.

The assumption of transitivity is violated.

The assumption of completeness is violated.

Consumers minimize their satisfaction.

10:19 PM me: a

56. **Prospective sunk costs:**

Select correct option:

**Are relevant to economic decision-making.**

Are considered as investment decisions.

Rise as output rises.

Do not occur when output equals zero.

me: a

57. **The variance of an investment opportunity:**

Select correct option:

Cannot be negative.

Has the same unit of measure as the variable from which it is derived.

Is a measure of central tendency.

Is unrelated to the standard deviation.

### Quiz 5

58. **The shutdown decision can be restated in terms of producer surplus by saying that a firm should produce in the short run as long as:**

Revenue exceeds producer surplus.

Producer surplus is positive.

## ECO 402 Final Term Quiz

Producer surplus exceeds fixed cost.  
Producer surplus exceeds variable cos

6:26 PM 2

**59. me: In an unregulated, competitive market consumer surplus exists because some:**

**Sellers are willing to take a lower price than the equilibrium price.**

Consumers are willing to pay more than the equilibrium price.

Sellers will only sell at prices above equilibrium price (or actual price).

Consumers are willing to make purchases only if the price is below the actual price.

**60. 6:28 PM me: Rabia and Samina are shopping for new cars (one each). Rabia expects to pay \$15,000 with 1/5 probability and \$20,000 with 4/5 probability. Samina expects to pay \$12,000 with 1/4 probability and \$20,000 with 3/4 probability. Refer to the above scenario, Rabia's expected expense for his car is:**

\$20,000.

**\$19,000.**

\$18,000.

\$17,500.

**me: An individual consumes only two goods, X and Y. Which of the following expressions represents the utility maximizing market basket?**

**me:**  $MRS_{xy}$  is at a maximum.

$P_x/P_y$  = money income.

$MRS_{xy}$  = money income.

**$MRS_{xy} = P_x/P_y$ .**

6:30 PM3

4

**61. me: When the price of wood (which is an input in the production of furniture) falls, the consumer surplus associated with the consumption of furniture:**

Increases.

Decreases.

Does not change.

Insufficient information for judgement

1

**62. me: The profit maximizing rule  $MC = MR$  is followed by:**

A monopoly, but not a perfectly competitive firm.

A perfectly competitive firm, but not a monopoly.

Both a monopoly and a perfectly competitive firm.

Neither a monopoly nor a perfectly competitive firm.

2

**63. me: To find the profit maximizing level of output, a firm finds the output level where:**

6:34 PM Price equals marginal cost.

Marginal revenue and average total cost.

Price equals marginal revenue.

None of the given options.

1

**64. me: Which of the following statements is true regarding the differences between economic and accounting costs?**

Accounting costs include all implicit and explicit costs.

Economic costs include implied costs only.

## ECO 402 Final Term Quiz

Accountants consider only implicit costs when calculating costs.

Accounting costs include only explicit costs.

**65. me: Which of the following is true concerning the income effect of a decrease in price?**

1

**It will lead to an increase in consumption only for a normal good.**

It always will lead to an increase in consumption.

It will lead to an increase in consumption only for an inferior good.

It will lead to an increase in consumption only for a Giffen good.

6:37 PM 1

**66. me: If managers do not choose to maximize profit, but pursue some other goal such as revenue maximization or growth,**

They are more likely to become takeover targets of profit-maximizing firms.

They are less likely to be replaced by stockholders.

They are less likely to be replaced by the board of directors.

They are more likely to have higher profit than if they had pursued that policy explicitly.

**67. me: Economies of scope refer to:**

me: Changes in technology.

The very long run.

Multiproduct firms.

Single product firms that utilize multiple plants.

1

**68. me: Suppose that the price of labor (PL ) is \$10 and the price of capital (PK ) is \$20. What is the equation of the isocost line corresponding to a total cost of \$100?**

Select correct option:

$PL + 20PK$

$100 = 10L + 20K$

$100 = 30(L+K)$

None of the given options

6:41 PMg

2

**69. me: A monopoly is a market structure characterized by:**

A single buyer.

A product with many close substitutes.

A large number of small firms.

Limited entry and exit.

6:45 PM me: Limited entry and exit.

monopolu

g

**70. me: Although there are many reasons why a market can be non-competitive, the principal economic difference between a competitive and a non-competitive market is:**

**The extent to which any firm can influence the price of the product.**

The size of the firms in the market.

The annual sales made by the largest firms in the market.

The presence of government intervention.

The extent to which any firm can influence the price of the product.

**71. 6:47 PM me: The shutdown decision can be restated in terms of producer surplus by saying that a firm should produce in the short run as long as:**

## ECO 402 Final Term Quiz

me: Revenue exceeds producer surplus.  
Producer surplus is positive.  
Producer surplus exceeds fixed cost.  
Producer surplus exceeds variable cost.

**72. me: In a short run production process, the marginal cost is rising and the average total cost is falling as output is increased. Thus, marginal cost is:**

Below average total cost.  
Above average total cost.  
Between the average variable and average total cost curves.  
Below average fixed cost.  
2nd , because jab producer surplus positive hai, toh producer will stay in market

**73. me: An investment opportunity has two possible outcomes, and the value of the investment opportunity is \$250. One outcome yields a \$100 payoff and has a probability of 0.25. What is the probability of the other outcome?**

Select correct option:

0  
0.25  
0.5  
0.75

**74. me: The slope of the total product curve is the:**

Average product.  
Slope of a line from the origin to the point.  
Marginal product.  
Marginal rate of technical substitution.  
4

**75. me: The Clinton administration has recommended an increase in the tax on yachts to help pay for government programs. Which of the following is true?**

Select correct option:

The burden of this tax will fall entirely on yacht manufacturers.  
The sales of yachts will decrease.  
The profit of yacht manufacturers will increase.  
Employment of workers in the yacht industry will increase.

**76. Price ceilings can result in a net loss in consumer surplus when the \_\_\_\_\_ curve is \_\_\_\_\_.**

Demand; very elastic  
Demand; very inelastic  
Supply; very inelastic  
None of the given options; price ceilings always increase consumer surplus.

1

## ECO 402 Final Term Quiz

**77. For any given level of output:**

Select correct option:

Marginal cost must be greater than average cost.

Average fixed cost must be greater than average variable cost.

Fixed cost must be greater than variable cost.

**None of the given options is necessarily correct**

**78. In the short run, a perfectly competitive firm earning positive economic profit is:**

Select correct option:

On the downward-sloping portion of its ATC.

At the minimum of its ATC.

On the upward-sloping portion of its ATC.

Above its ATC.

2

**79. if price is between AVC and ATC, the best and most practical thing for a perfectly competitive firm to do is:**

Select correct option:

Raise prices.

**Lower prices to gain revenue from extra volume.**

Shut down immediately, but not liquidate the business.

Continue operating, but plan to go out of business.

me: a

**80. Moving down a typical isoquant, the slope of the isoquant :**

Select correct option:

Becomes flatter.

Becomes steeper.

Remains constant.

Becomes linear.

**81. When the federal government installs a price support program that requires the government to purchase all of a good not bought in the private economy at the support price, changes in producer surplus:**

Select correct option:

Are negative.

Are positive, but more than offset by the cost to consumers and the government.

Are positive, and not offset by the cost to consumers and the government.

None of the given options.

**82. One reason individuals are willing to pay for information in uncertain situations is that information:**



## ECO 402 Final Term Quiz

Select correct option:

Can reduce uncertainty.

Is a way to diversify.

Is a method of insurance.

Always reduces the difference between the probabilities of possible outcomes.

83. **A firm produces leather handbags and leather shoes. If there are economies of scope, the product transformation curve between handbags and shoes will be:**

Select correct option:

A straight line.

Bowed outward (concave).

Bowed inward (convex).

A rectangle.

84. **The area below the demand curve and above the price line measures:**

Select correct option:

Consumer surplus.

Economic profit.

Elasticity of demand.

The total value obtained from consuming the good or service.

85. **The supply curve for a competitive firm is:**

Select correct option:

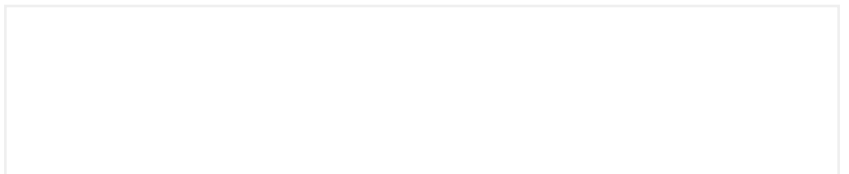
Its entire MC curve.

The upward-sloping portion of its MC curve.

Its MC curve above the minimum point of the AVC curve.

Its MC curve above the minimum point of the ATC curve.

## Eco 402 Final Term Quiz



## ECO 402 Final Term Quiz

**209. The "perfect information" assumption of perfect competition includes all of the following except one. Which one?**

Consumers know their preferences.  
Consumers know their income levels.  
Consumers know the prices available.

**Consumers can anticipate price changes.**

**210. Incremental cost is the same concept as \_\_\_\_\_ cost.**

Average  
**Marginal**  
Fixed  
Variable

**211. A production function assumes a given:**

**Technology.**

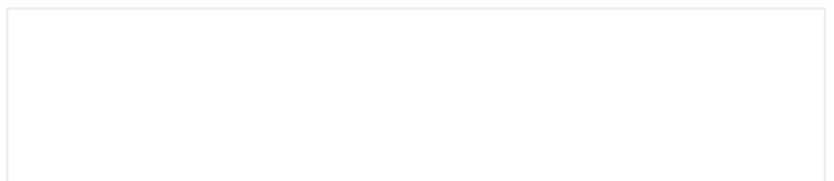
Set of input prices.  
Ratio of input prices.  
Amount of output.

**212. Assume that beer is an inferior good. If the price of beer falls, then the substitution effect results in the person buying \_\_\_\_\_ of the good and the income effect results in the person buying \_\_\_\_\_ of the good.**

More, more  
More, less  
**Less, more**  
Less, less

**213. Producer surplus for the whole market can be thought of as:**

Total profit.  
**Variable operating profit plus factor rents.**  
Total profit minus factor rents earned by lower cost firms.  
Total profit plus factor rents earned by lower cost firms.



## ECO 402 Final Term Quiz

**214. Baba Burgers has discovered there are economies of scope available to the restaurant. Which is most likely to be a response to this discovery?**

Baba expands burger production, focusing on that one good.

Baba contracts burger production.

**Baba adds grilled chicken sandwiches to the menu.**

Baba cuts back on the diversity of the menu.

**215. The endpoints (horizontal and vertical intercepts) of the budget line:**

Measure its slope.

Measure the rate at which one good can be substituted for another.

**Measure the rate at which a consumer is willing to trade one good for another.**

Represent the quantity of each good that could be purchased if all of the budget were allocated to that good.

**216. The "perfect information" assumption of perfect competition includes all of the following except one. Which one?**

Consumers know their preferences.

Consumers know their income levels.

Consumers know the prices available.

**Consumers can anticipate price changes.**

**217. The difference between the economic and accounting costs of a firm are:**

**The accountant's fees.**

The corporate taxes on profits.

The opportunity costs of the factors of production that the firm owns.

The sunk costs incurred by the firm.

**218. Plastic and steel are substitutes in the production of body panels for certain automobiles. If the price of plastic increases, with other things remaining the same, we would expect:**

The price of steel to fall.

**The demand curve for steel to shift to the right.**

The demand curve for plastic to shift to the left.

The demand curve for steel to shift to the left.

## ECO 402 Final Term Quiz

### Quiz 2

**219. Cost-output elasticity can be written and calculated as:**

**MC/AC.**

AC/MC

(AC)(MC)

(AC)<sup>2</sup>(MC)

**220. Fixed costs are fixed with respect to changes in:**

**Output.**

Capital expenditure.

Wages.

Time.

**221. The presence of a learning curve may induce a decision maker in a startup firm to choose:**

Low levels of output to exploit economies of scale.

High levels of output to exploit economies of scale.

Low levels of output to shift the average cost curve down over time.

**High levels of output to shift the average cost curve down over time.**

**222. Which of the following is true regarding the relationship between returns to scale and economies of scope?**

A firm experiencing economies of scope must also experience increasing returns to scale.

**Economies of scale and economies of scope must occur together.**

A firm experiencing increasing returns to scale must also experience economies of scope.

There is no definite relationship between returns to scale and economies of scope.

**223. Salman would prefer a certain income of \$20,000 to a gamble with a 0.5 probability of \$10,000 and a 0.5 probability of \$30,000. Based on this information:**

We can infer that Salman is risk neutral.

We can infer that Salman is risk averse.

**We can infer that Salman is risk loving.**

We cannot infer Salman's risk preferences.

**224. When the average product is decreasing, marginal product:**

Equals average product.

Is increasing.

Exceeds average product.

**Is less than average product.**

**225. Government intervention can increase total welfare when:**

There are costs or benefits that are external to the market.

Consumers do not have perfect information about product quality.

**A high price makes the product unaffordable for most consumers.**

There are costs or benefits that are external to the market and consumers do not have perfect information about product quality.

**226. If a competitive firm's marginal cost curve is U-shaped then:**

Its short run supply curve is U-shaped too.

**Its short run supply curve is the downward-sloping portion of the marginal cost curve.**

Its short run supply curve is the upward-sloping portion of the marginal cost curve.

Its short run supply curve is the upward-sloping portion of the marginal cost curve that lies above the short run average variable cost curve.

**227. Economies of scope refer to:**

**Changes in technology.**

The very long run.

Multiproduct firms.

Single product firms that utilize multiple plants.

**228. Although there are many reasons why a market can be non-competitive, the principal economic difference between a competitive and a non-competitive market is:**

The extent to which any firm can influence the price of the product.

The size of the firms in the market.

The annual sales made by the largest firms in the market.

**The presence of government intervention.**

**229. Indifference curves that are convex to the origin reflect:**

An increasing marginal rate of substitution.

**A decreasing marginal rate of substitution.**

A constant marginal rate of substitution.

A marginal rate of substitution that first decreases, then increases.

**230. The endpoints (horizontal and vertical intercepts) of the budget line:**

Measure its slope.

Measure the rate at which one good can be substituted for another.

**Measure the rate at which a consumer is willing to trade one good for another.**

Represent the quantity of each good that could be purchased if all of the budget were allocated to that good.

**231. Consider the following statements when answering this question: I. "In the long run equilibrium of a perfectly competitive market, a firm's producer surplus equals the sum of the economic rents earned on its inputs to production." II. "In the long run equilibrium of a perfectly competitive market, the amount of economic profit earned can differ across firms, but not the amount of producer surplus."**

I and II are true.

I is true, and II is false.

**I is false, and II is true.**

I and II are false.

**232. Suppose that the prices of good A and good B were to suddenly double. If good A is plotted along the horizontal axis:**

The budget line will become steeper.

The budget line will become flatter.

The slope of the budget line will not change.

**The slope of the budget line will change, but in an indeterminate way.**

**3**

**233. A country's government would like to raise the price of one its most important agricultural crops, coffee beans. Which of the following government programs will result in higher prices for coffee beans?**

Select correct option:

An import quota on coffee beans.

An acreage limitation program which provides coffee bean farmers financial incentives to leave some of their acreage idle.

An import tariff on coffee beans.

All of the given options.

**234. Which of the following is NOT a generally accepted measure of the riskiness of an investment?**

Select correct option:

Standard deviation.

Expected value.

Variance.

None of the given options.

**235. Which of the following is a positive statement?**

Select correct option:

When the price of a good goes up, consumers buy less of it.

When the price of a good goes up, firms produce more of it.

When the Federal government sells bonds, interest rates rise and private investment is reduced.

All of the given options.

**236. Rabia knows average total cost and average variable cost for a given level of output. Which of the following costs can she not determine given this information?**

Select correct option:

Average fixed cost

Fixed cost

Variable cost

Rabia can determine all of the above costs given the information provided.

**237. Which of the following is NOT true about price floors?**

Select correct option:

## ECO 402 Final Term Quiz

Consumer surplus is always lower than it would be in the competitive equilibrium.  
Producer surplus could be lower, higher, or the same as it would be in competitive equilibrium.

Producer surplus could be negative as the result of a price floor.

**Producers will often respond to a price floor by cutting production to the point at which price equals marginal cost.**

**238. A production function in which the inputs are perfectly substitutable would have isoquants that are:**

Select correct option:

Convex to the origin.

L shaped.

Linear.

Concave to the origin.

**239. For an inferior good:**

Select correct option:

The price elasticity of demand is negative; the income elasticity of demand is negative.

The price elasticity of demand is positive; the income elasticity of demand is negative.

**The price elasticity of demand is negative; the income elasticity of demand is positive.**

The price elasticity of demand is positive; the income elasticity of demand is positive.

**240. The short run is:**

Select correct option:

Less than a year.

Three years.

However long it takes to produce the planned output.

A time period in which at least one input is fixed.

**241. Any combination of products inside the production possibility frontier is:**

Select correct option:



## ECO 402 Final Term Quiz

Allocatively inefficient  
Consumer inefficient  
Productively inefficient  
None of the given option.

**242. Which of the following is NOT an assumption regarding people's preferences in the theory of consumer behavior?**

Select correct option:

Preferences are complete.  
Preferences are transitive.  
Consumers prefer more of a good to less.  
None of the given options.

**243. In 1970s the federal government imposed price controls on natural gas. Which of the following statements is true?**

Select correct option:

These price controls caused a chronic excess supply of natural gas.  
Consumers gained from the price controls, because consumer surplus was larger than it would have been under free market equilibrium.  
Producers gained from the price controls because producer surplus was larger than it would have been under free market equilibrium.  
This episode of price controls was unusual, because it resulted in no deadweight loss to society.

**244. A production function defines the output that can be produced:**

Select correct option:

At the lowest cost, given the inputs available.  
With the fewest amount of inputs.  
If the firm is technically efficient.  
In a given time period if no additional inputs are hired.

**245. A firm never operates:**

## ECO 402 Final Term Quiz

Select correct option:

- At the minimum of its ATC curve.
- At the minimum of its AVC curve.
- On the downward-sloping portion of its ATC curve.
- On the downward-sloping portion of its AVC curve.

**246. Two firms, each producing different goods, can achieve a greater output than one firm producing both goods with the same inputs. We can conclude that the production process involves:**

Select correct option:

- Diseconomies of scope.
- Economies of scale.
- Decreasing returns to scale.
- Increasing returns to scale.

**247. In long-run competitive equilibrium, a firm that owns factors of production will have an:**

Select correct option:

- Economic profit = \$0 and accounting profit > \$0.
- Economic and accounting profit = \$0.
- Economic and accounting profit > \$0.
- Economic and accounting profit can take any value.

4

**248. When a product transformation curve is bowed outward, there are \_\_\_\_\_ in production.**

- Economies of scope
- Economies of scale**
- Diseconomies of scope
- Diseconomies of scale

## ECO 402 Final Term Quiz

**249. The marginal rate of technical substitution is equal to the:**

Slope of the total product curve.

Change in output minus the change in labor.

**Change in output divided by the change in labor.**

Ratio of the marginal products of the inputs.

**250. Consider two goods X and Y available for consumption. Assume that the price of X changes while the price of Y remains fixed. For these two goods, the price-consumption curve illustrates the:**

**Relationship between the price of X and consumption of Y.**

Utility-maximizing combinations of X and Y for each price of X.

Relationship between the price of Y and the consumption of X.

Utility-maximizing combinations of X and Y for each quantity of X.

**251. Assume that two investment opportunities have identical expected values of \$100,000. Investment A has a variance of 25,000, while investment B's variance is 10,000. We would expect most investors (who dislike risk) to prefer investment opportunity:**

A because it has less risk.

A because it provides higher potential earnings.

**B because it has less risk.**

B because of its higher potential earnings.

**252. The law of diminishing returns refers to diminishing:**

: Total returns.

**Marginal returns.**

Average returns.

All of the given option

**253. : If the isoquants are straight lines, then:**

: Inputs have fixed costs at all use rates.

**The marginal rate of technical substitution of inputs is constant.**

Only one combination of inputs is possible.

There are constant returns to scale.

H99s1: 4th

**254. : The total cost (TC) of producing computer software diskettes (Q) is given as:  $TC = 200 + 5Q$ . What is the variable cost?**

: 200

**5Q**

5

$$5 + (200/Q)$$

**255. The demand curve facing a perfectly competitive firm is:**

The same as the market demand curve.

Downward-sloping and less flat than the market demand curve.

**Perfectly horizontal.**

Perfectly vertical.

**256. : The cost-output elasticity is used to measure:**

Economies of scope.

**Economies of scale.**

The curvature in the fixed cost curve.

Steepness of the production function.

:

**257. The budget line in portfolio analysis shows that:**

The expected return on a portfolio increases as the standard deviation of that return increases.

The expected return on a portfolio increases as the standard deviation of that return decreases.

**The expected return on a portfolio is constant.**

The standard deviation of a portfolio is constant.

**258. A Rolling Stones song goes: "You can't always get what you want." This echoes an important theme from microeconomics. Which of the following statements is the best example of this theme?**

Consumers must make the best purchasing decisions they can, given their limited incomes.  
Workers do not have as much leisure as they would like, given their wages and working conditions.

Workers in planned economies, such as North Korea, do not have much choice over jobs.

**Firms in market economies have limited financial resources.**

**259. Compared to a tariff, an import quota, which restricts imports to the same amount as the tariff, will leave the country as a whole:**

**Worse off than a comparable tariff.**

Not as bad off as a comparable tariff.  
About the same as a comparable tariff.  
Any of the above can be true.

**260. Any combination of products inside the production possibility frontier is:**

Allocatively inefficient  
Consumer inefficient  
**Productively inefficient**  
None of the given option.

**261. : In the long run, which of the following is considered a variable cost?**

Expenditures for wages.  
Expenditures for raw materials.  
**Expenditures for capital machinery and equipment.**  
All of the given options.

**262. Two firms, each producing different goods, can achieve a greater output than one firm producing both goods with the same inputs. We can conclude that the production process involves:**

: Diseconomies of scope.  
**Economies of scale.**  
Decreasing returns to scale.  
Increasing returns to scale.

5

**263. The change in the quantity demanded of a good resulting from a change in relative price with the level of satisfaction held constant is called the \_\_\_\_\_ effect.**

**Select correct option:**

Giffen  
Real price  
Income  
Substitution

**264. If a competitive firm's marginal cost always increases with output, then at the profit maximizing output level, producer surplus is:**  
**Select correct option:**

## ECO 402 Final Term Quiz

Zero because marginal costs equal marginal revenue.  
Zero because price equals marginal costs.  
Positive because price exceeds average variable costs.  
Positive because price exceeds average total costs.

**265. The concept of a risk premium applies to a person that is:  
Select correct option:**

Risk averse.  
Risk neutral.  
Risk loving.  
All of the given options.

**266. Governments may successfully intervene in competitive markets in order to achieve economic efficiency:  
Select correct option:**

At no time; competitive markets are always efficient without government intervention.  
In cases of positive externalities only.  
In cases of negative externalities only.  
In cases of both positive and negative externalities.

**267. What happens in a perfectly competitive industry when economic profit is greater than zero?  
Select correct option:**

Existing firms may get larger.  
New firms may enter the industry.  
Firms may move along their LRAC curves to new outputs.  
All of the given options.

**268. Which of the following is NOT true about price floors?  
Select correct option:**

Consumer surplus is always lower than it would be in the competitive equilibrium.  
Producer surplus could be lower, higher, or the same as it would be in competitive equilibrium.  
Producer surplus could be negative as the result of a price floor.

## ECO 402 Final Term Quiz

Producers will often respond to a price floor by cutting production to the point at which price equals marginal cost.

**269. Indifference curves that are convex to the origin reflect:**

Select correct option:

- An increasing marginal rate of substitution.
- A decreasing marginal rate of substitution.
- A constant marginal rate of substitution.
- A marginal rate of substitution that first decreases, then increases.

**270. Which of the following statements is true regarding the differences between economic and accounting costs?**

Select correct option:

- Accounting costs include all implicit and explicit costs.
- Economic costs include implied costs only.
- Accountants consider only implicit costs when calculating costs.
- Accounting costs include only explicit costs.

**271. Rabia and Samina are shopping for new cars (one each). Rabia expects to pay \$15,000 with 1/5 probability and \$20,000 with 4/5 probability. Samina expects to pay \$12,000 with 1/4 probability and \$20,000 with 3/4 probability. Refer to the above scenario, Rabia's expected expense for his car is:**

Select correct option:

- \$20,000.
- \$19,000.
- \$18,000.
- \$17,500.

**272. A decreasing-cost industry has a downward-sloping:**

## ECO 402 Final Term Quiz

Select correct option:

- Long-run marginal cost curve.
- Short-run average cost curve.
- Short-run marginal cost curve.
- Long-run industry supply curve.

**273. Producer surplus is measured as the:**

Select correct option:

- Area under the demand curve above market price.
- Entire area under the supply curve.
- Area under the demand curve above the supply curve.
- Area above the supply curve up to the market price.

**274. In a constant-cost industry, an increase in demand will be followed by:**

Select correct option:

- No increase in supply.
- An increase in supply that will not change price from the higher level that occurs after the demand shift.
- An increase in supply that will bring price down to the level it was before the demand shift.
- An increase in supply that will bring price down below the level it was before the demand shift.

**275. The "perfect information" assumption of perfect competition includes all of the following except one. Which one?**

Select correct option:

- Consumers know their preferences.
- Consumers know their income levels.
- Consumers know the prices available.
- Consumers can anticipate price changes.

**276. A Giffen good:**



## ECO 402 Final Term Quiz

Select correct option:

Is always the same as an inferior good.

Is the special subset of inferior goods in which the substitution effect dominates the income effect.

Is the special subset of inferior goods in which the income effect dominates the substitution effect.

Must have a downward sloping demand curve

**277. The object of diversification is:**

Select correct option:

To reduce risk and fluctuations in income.

To reduce risk, but not to reduce fluctuations in income.

To reduce fluctuations in income, but not to reduce risk.

Neither to reduce risk, nor to reduce fluctuations in income.

**278. A price support may be pictured by:**

Select correct option:

Shifting the demand curve to the right by the amount of the government purchase.

Shifting the demand curve to the left by the amount of the government purchase.

Shifting the supply curve to the right by the amount of the government purchase.

Shifting the supply curve to the left by the amount of the government purchase.

**279. Ali and Sarah decide to go into business together as economic consultants. Ali believes they have a 50-50 chance of earning \$200,000 a year, and that if they don't, they'll earn \$0. Sarah believes they have a 75% chance of earning \$100,000 and a 25% chance of earning \$10,000. Refer to the scenario, the probabilities discussed in the information above are:**

Select correct option:

Objective because they are single numbers rather than ranges.

Objective because they have been explicitly articulated by the individuals involved.

Subjective because the event hasn't happened yet.

Subjective because they are estimates made by individuals based upon personal judgment or experience.

**280. The law of diminishing returns refers to diminishing:**

Select correct option:

Total returns.

## ECO 402 Final Term Quiz

Marginal returns.  
Average returns.  
All of the given options.

**281. The marginal rate of technical substitution is equal to the:**

Select correct option:

Slope of the total product curve.  
Change in output minus the change in labor.  
Change in output divided by the change in labor.  
Ratio of the marginal products of the inputs.

**282. Boeing Corporation and Airbus Industries are the only two producers of long-range commercial aircraft. This market is not perfectly competitive because:**

Select correct option:

Each company has annual sales over \$10 billion.  
Each company can significantly affect prices.  
Airbus cannot sell aircraft to the United States government.  
All of the given options.

**283. In a short run production process, the marginal cost is rising and the average total cost is falling as output is increased. Thus, marginal cost is:**

Select correct option:

Below average total cost.  
Above average total cost.  
Between the average variable and average total cost curves.  
Below average fixed cost.

**284. In the short run, a perfectly competitive profit maximizing firm that has not shut down:**

Select correct option:

Is operating on the downward-sloping portion of its AVC curve.  
Is operating at the minimum of its AVC curve.  
Is operating on the upward-sloping portion of its AVC curve.  
Is not operating on its AVC curve.

**285. When the federal government installs a price support program that requires the government to purchase all of a good not bought in the private economy at the support price, changes in producer surplus:**

Select correct option:

## ECO 402 Final Term Quiz

Are negative.

Are positive, but more than offset by the cost to consumers and the government.

Are positive, and not offset by the cost to consumers and the government.

None of the given options.

**286. Rabia and Samina are shopping for new cars (one each). Rabia expects to pay \$15,000 with 1/5 probability and \$20,000 with 4/5 probability. Samina expects to pay \$12,000 with 1/4 probability and \$20,000 with 3/4 probability. Refer to the above scenario, Rabia's expected expense for his car is:**

Select correct option:

\$20,000.

\$19,000.

\$18,000.

\$17,500.

**287. Marginal utility measures:**

Select correct option:

The slope of the indifference curve.

The additional satisfaction from consuming one more unit of a good.

The slope of the budget line.

The marginal rate of substitution.

**288.**

**The endpoints (horizontal and vertical intercepts) of the budget line:**

Select correct option:

Measure its slope.

Measure the rate at which one good can be substituted for another.

Measure the rate at which a consumer is willing to trade one good for another.

Represent the quantity of each good that could be purchased if all of the budget were allocated to that good.

**289. Deadweight loss refers to:**

Select correct option:

Losses in consumer surplus associated with excess government regulations.

Situations where market prices fail to capture all of the costs and benefits of a policy.

Net losses in total surplus.

Losses due to the policies of labor unions.

**290.**

**the marginal product of an input is:**

Select correct option:

- Total product divided by the amount of the input used to produce this amount of output.
- The addition to total output that adds nothing to profit.
- The addition to total output due to the addition of one unit of all other inputs.
- The addition to total output due to the addition of the last unit of an input, holding all other inputs constant.

**291. If the isoquants are straight lines, then:**

Select correct option:

- Inputs have fixed costs at all use rates.
- The marginal rate of technical substitution of inputs is constant.
- Only one combination of inputs is possible.
- There are constant returns to scale.

**292. Consider the following statements when answering this question: I. "In the long run equilibrium of a perfectly competitive market, a firm's producer surplus equals the sum of the economic rents earned on its inputs to production." II. "In the long run equilibrium of a perfectly competitive market, the amount of economic profit earned can differ across firms, but not the amount of producer surplus."**

Select correct option:

- I and II are true.
- I is true, and II is false.
- I is false, and II is true.
- I and II are false.

**293. The amount of output that a firm decides to sell has no effect on the market price in a competitive industry because:**

Select correct option:

- The market price is determined (through regulation) by the government.
- The firm supplies a different good than its rivals.
- The firm's output is a small fraction of the entire industry's output.
- The short run market price is determined solely by the firm's technology.

**294. Producer surplus is measured as the:**

Select correct option:

## ECO 402 Final Term Quiz

Area under the demand curve above market price.  
Entire area under the supply curve.  
Area under the demand curve above the supply curve.  
Area above the supply curve up to the market price.

**295. price ceilings:**

Select correct option:

Always increase consumer surplus.  
May decrease consumer surplus if demand is sufficiently elastic.  
May decrease consumer surplus if demand is sufficiently inelastic.  
Always decrease consumer surplus.

**296. An individual consumes only two goods, X and Y. Which of the following expressions represents the utility maximizing market basket?**

Select correct option:

MRS<sub>xy</sub> is at a maximum.  
 $P_x/P_y$  = money income.  
MRS<sub>xy</sub> = money income.  
MRS<sub>xy</sub> =  $P_x/P_y$ .

**297. In the long run, a firm's producer surplus is equal to the:**

Select correct option:

Economic rent it enjoys from its scarce inputs.  
Revenue it earns in the long run.  
Positive economic profit it earns in the long run.  
Difference between total revenue and total variable costs.

**298. The marginal product of an input is:**

Select correct option:

Total product divided by the amount of the input used to produce this amount of output.  
The addition to total output that adds nothing to profit.  
The addition to total output due to the addition of one unit of all other inputs.  
The addition to total output due to the addition of the last unit of an input, holding all other inputs constant.

**299. Assume that two investment opportunities have identical expected values of \$100,000. Investment A has a variance of 25,000, while investment**

## ECO 402 Final Term Quiz

**B's variance is 10,000. We would expect most investors (who dislike risk) to prefer investment opportunity:**

Select correct option:

- A because it has less risk.
- A because it provides higher potential earnings.
- B because it has less risk.
- B because of its higher potential earnings.

**300. The price elasticity of demand for a demand curve that has a zero slope is:**

Select correct option:

- Zero.
- One.
- Negative but approaches zero as consumption increases.
- Infinity.

**301. A firm's producer surplus equals its economic profit when:**

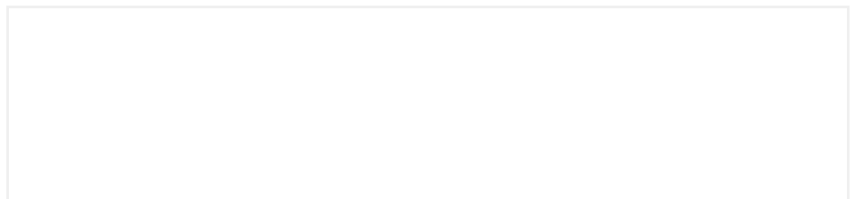
Select correct option:

- Average variable costs are minimized.
- Marginal costs equal marginal revenue.
- Fixed costs are zero.
- Total revenues equal total variable costs.

**302. The long run supply curve in a constant-cost industry is linear and:**

Select correct option:

- Upward-sloping.
- Downward-sloping.
- Horizontal.
- Vertical.



**303. Prospective sunk costs:**

Select correct option:

- Are relevant to economic decision-making.
- Are considered as investment decisions.
- Rise as output rises.
- Do not occur when output equals zero. 4th

**304. An isoquant:**

Select correct option:

- Must be linear.
- Cannot have a negative slope.
- Is a curve that shows all the combinations of inputs that yield the same total output.
- Is a curve that shows the maximum total output as a function of the level of labor input. 3rd

**305. Which of the following would cause a shift to the right of the supply curve for gasoline? I. A large increase in the price of public transportation. II. A large decrease in the price of automobiles. III. A large reduction in the costs of producing gasoline.**

Select correct option:

- I only.
- II only.
- III only.
- II and III only.

2nd

**306. If price is between AVC and ATC, the best and most practical thing for a perfectly competitive firm to do is:**

Select correct option:

- Raise prices.
- Lower prices to gain revenue from extra volume.
- Shut down immediately, but not liquidate the business.
- Continue operating, but plan to go out of business.

1st

**307. The amount of output that a firm decides to sell has no effect on the market price in a competitive industry because:**

Select correct option:

- The market price is determined (through regulation) by the government.
- The firm supplies a different good than its rivals.
- The firm's output is a small fraction of the entire industry's output.
- The short run market price is determined solely by the firm's technology.

1st

**308. The law of diminishing returns applies to:**

Select correct option:

- The short run only.
- The long run only.
- Both the short and the long run.
- Neither the short nor the long run.

3<sup>rd</sup>

**309. In an unregulated, competitive market consumer surplus exists because some:**

Select correct option:

- Sellers are willing to take a lower price than the equilibrium price.
- Consumers are willing to pay more than the equilibrium price.
- Sellers will only sell at prices above equilibrium price (or actual price).
- Consumers are willing to make purchases only if the price is below the actual price.

**310. Which of the following is a positive statement?**

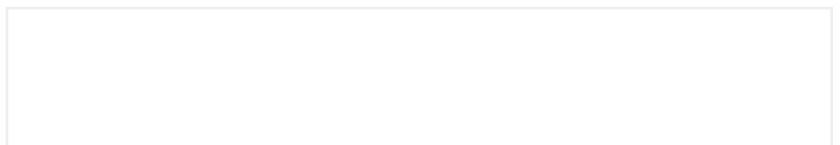
Select correct option:

- The minimum wage should not be increased, because to do so would increase unemployment.
- Smoking should be restricted on all airline flights.
- All automobile passengers should be required to wear seatbelts in order to protect them against injury.
- None of the given options.

**311. Which of the following is true concerning the income effect of a decrease in price?**

Select correct option:

- It will lead to an increase in consumption only for a normal good.
- It always will lead to an increase in consumption.
- It will lead to an increase in consumption only for an inferior good.
- It will lead to an increase in consumption only for a Giffen good.





**312. Generally, long-run elasticities of supply are:**

Select correct option:

Greater than short-run elasticities, because existing inventories can be exploited during shortages.

Greater than short-run elasticities, because consumers have time to find substitutes for the good.

Greater than short-run elasticities, because firms can make alterations to plant size and input combinations to be more flexible in production.

Smaller than short-run elasticities, because the firm has made long-term commitments it cannot easily modify.

4th

## **Eco 402 final term quizzes**

**86. The marginal product of an input is:**

Select correct option:

Total product divided by the amount of the input used to produce this amount of output.

The addition to total output that adds nothing to profit.

**The addition to total output due to the addition of one unit of all other inputs.**

The addition to total output due to the addition of the last unit of an input, holding all other inputs constant.

**87. Which of the following would cause a shift to the right of the supply curve for gasoline? I. A large increase in the price of public transportation. II. A large decrease in the price of automobiles. III. A large reduction in the costs of producing gasoline.**

Select correct option:

I only.

II only.

III only.

II and III only.

**88. Incremental cost is the same concept as \_\_\_\_\_ cost.**

Select correct option:

Average

**Marginal**

Fixed

Variable

**89. Which of the following assets is almost riskless?**

Select correct option:

Common stocks

Long-term corporate bonds

U.S. treasury bills

**Long-term government bonds**

**90. Consider the following statements when answering this question: I. "In the long run, if a firm wants to remain in a competitive industry then it needs to own resources that are in limited supply." II. "In this competitive market our firm's long run survival depends only on the efficiency of our production process."**

Select correct option:

**I and II are true.**

I is true, and II is false.

I is false, and II is true.

I and II are false.

**91. Above-normal profits are guaranteed for:**

Select correct option:

A monopoly, but not a perfectly competitive firm.

A perfectly competitive firm, but not a monopoly.

**Both a monopoly and a perfectly competitive firm.**

Neither a monopoly nor a perfectly competitive firm.

**92. The benefit of a subsidy accrues mostly to consumers:**

Select correct option:

In every instance.

If  $E_d/E_s$  is large.

**If  $E_d/E_s$  is small.**

If Ed and Es are equal.

**93. The cost-output elasticity is used to measure:**

Select correct option:

Economies of scope.

**Economies of scale.**

The curvature in the fixed cost curve.

Steepness of the production function.

**94. A firm maximizes profit by operating at the level of output where:**

Select correct option:

Average revenue equals average cost.

Average revenue equals average variable cost.

**Total costs are minimized.**

**Marginal revenue equals marginal cost.**

**95. A firm's producer surplus equals its economic profit when:**

Select correct option:

Average variable costs are minimized.

Marginal costs equal marginal revenue.

Fixed costs are zero.

Total revenues equal total variable costs.

**96. The price of good A goes up. As a result the demand for good B shifts to the left. From**

this we can infer that:

Select correct option:

Good A is used to produce good B.

Good B is used to produce good A.

**Goods A and B are substitutes.**

Goods A and B are complements.

**97. Deadweight loss refers to:**

Select correct option:

Losses in consumer surplus associated with excess government regulations.

Situations where market prices fail to capture all of the costs and benefits of a policy.

**Net losses in total surplus.**

Losses due to the policies of labor unions.

**98. Assume that a firm spends \$500 on two inputs, labor (graphed on the horizontal axis) and capital (graphed on the vertical axis). If the wage rate is \$20 per hour and the rental cost of capital is \$25 per hour, the slope of the isocost curve will be:**

Select correct option:

500

25/500

- 4/5

25/20 or  $\frac{1}{4}$

**99. Which of the following is true regarding income along a price consumption curve?**

Select correct option:

Income is increasing.

Income is decreasing.

**Income is constant.**

The level of income depends on the level of utility.

## Quiz 2

**100. Government intervention can increase total welfare when:**

Select correct option:

There are costs or benefits that are external to the market.

Consumers do not have perfect information about product quality.

A high price makes the product unaffordable for most consumers.

There are costs or benefits that are external to the market and consumers do not have perfect information about product quality.

**101. What does it mean when the CPI is higher this year than last?**

Select correct option:

The rate of inflation has increased.

There has been inflation since last year.

Real prices have increased.

Real prices have decreased.

**102. Which of the following would cause a shift to the right of the supply curve for gasoline? I. A large increase in the price of public transportation. II. A large decrease in the price of automobiles. III. A large reduction in the costs of producing gasoline.**

Select correct option:

**I only.**

II only.

III only.

II and III only.

**103. Fixed costs are fixed with respect to changes in:**

Select correct option:

Output.

Capital expenditure.

Wages.

Time.

**104. Which of the following is NOT true regarding monopoly?**

Select correct option:

Monopoly is the sole producer in the market.

Monopoly price is determined from the demand curve.

Monopolist can charge as high a price as it likes.

Monopoly demand curve is downward sloping.

## ECO 402 Final Term Quiz

**105. Jane is trying to decide which courses to take next semester. She has narrowed down her choice to two courses Microeconomics and Macroeconomics. Now she is having trouble. She just cannot decide which of the two courses to take. It's not that she is indifferent between the two courses, she just cannot decide. An economist would say that this is an example of preferences that:**

Select correct option:

Are not transitive.

Are incomplete.

Violate the assumption that more is preferred to less.

**All of the given options.**

**106. Technological improvement:**

Select correct option:

Can hide the presence of diminishing returns.

Can be shown as a shift in the total product curve.

Allows more output to be produced with the same combination of inputs.

**All of the given options are true.**

**107. Rabia and Samina are shopping for new cars (one each). Rabia expects to pay \$15,000 with 1/5 probability and \$20,000 with 4/5 probability. Samina expects to pay \$12,000 with 1/4 probability and \$20,000 with 3/4 probability. Refer to the above scenario, which of the following is true?**

Select correct option:

Rabia has a higher expected expense than Samina for the car.

Rabia has a lower expected expense than Samina for the car.

Rabia and Samina have the same expected expense for the car, and it is somewhat less than \$20,000.

It is not possible to calculate the expected expense for the car until the true probabilities are known.

**108. A firm never operates:**

Select correct option:

At the minimum of its ATC curve.

At the minimum of its AVC curve.

On the downward-sloping portion of its ATC curve.

On the downward-sloping portion of its AVC curve.

**109. Assume that one of two possible outcomes will follow a decision. One outcome yields a \$75 payoff and has a probability of 0.3; the other outcome has a \$125 payoff and has a probability of 0.7. In this case the expected value is:**

Select correct option:

\$85.

\$60.

\$110.

\$35.

**110. Good A is a normal good. The demand curve for good A:**

Select correct option:

**Slopes downward.**

Usually slopes downward, but could slope upward.

Slopes upward.

## ECO 402 Final Term Quiz

Usually slopes upward, but could slope downward.

**111. The function which shows combinations of inputs that yield the same output is called a(n):**

Select correct option:

Isoquant curve.

**Isocost curve.**

Production function.

Production possibilities frontier.

**112. The snob effect corresponds best to a:**

Select correct option:

Negative network externality.

Giffen good.

Positive network externality.

Bandwagon effect.

**113. In the long run, which of the following is considered a variable cost?**

Select correct option:

Expenditures for wages.

Expenditures for raw materials.

Expenditures for capital machinery and equipment.

All of the given options.

**114. When people pay a monthly fee to have a hookup to the telephone company's line plus a fee for each call actually made, we would say that the telephone company is using:**



## ECO 402 Final Term Quiz

Select correct option:

Limit pricing.

A two-part tariff.

Second-degree price discrimination.

Two stage price discrimination.

### Quiz 3

**115. The price elasticity of demand for a demand curve that has a zero slope is:**

Select correct option:

Zero.

One.

Negative but approaches zero as consumption increases.

**Infinity.**

**116. The concept of a risk premium applies to a person that is:**

Select correct option:

**Risk averse.**

Risk neutral.

Risk loving.

All of the given options.

**117. Price ceilings:**

Select correct option:

Always increase consumer surplus.

**May decrease consumer surplus if demand is sufficiently elastic.**

## ECO 402 Final Term Quiz

May decrease consumer surplus if demand is sufficiently inelastic.

Always decrease consumer surplus.

**118. The demand for books is:  $Q_d = 120 - P$  The supply of books is:  $Q_s = 5P$   
Refer to the above scenario, if  $P = \$15$ , which of the following is true?**

Select correct option:

**There is a surplus equal to 30.**

There is a shortage equal to 30.

There is a surplus, but it is impossible to determine how large.

There is a shortage, but it is impossible to determine how large

**119. A firm maximizes profit by operating at the level of output where:**

Select correct option:

Average revenue equals average cost.

Average revenue equals average variable cost.

Total costs are minimized.

**Marginal revenue equals marginal cost.**

**120. If  $P_x = P_y$ , then when the consumer maximizes utility:**

Select correct option:

X must equal Y.

**MU(X) must equal MU(Y).**

MU(X) may equal MU(Y), but it is not necessarily so.

X and Y must be substitutes.

## ECO 402 Final Term Quiz

- 121. Consider the following statements when answering this question: I. "In the long run, if a firm wants to remain in a competitive industry then it needs to own resources that are in limited supply." II. "In this competitive market our firm's long run survival depends only on the efficiency of our production process."**

Select correct option:

I and II are true.

I is true, and II is false.

**I is false, and II is true. (Not Sure)**

I and II are false.

- 122. An investment opportunity is a sure thing; it will pay off \$100 regardless of which of the three possible outcomes comes to pass. The variance of this investment opportunity:**

Select correct option:

**Is 0.**

Is 1.

Is 2.

Is -1.

- 123. If X and Y are perfect substitutes, which of the following assumptions about indifference curves is not satisfied?**

Select correct option:

Completeness.

**Transitivity.**

More is preferred to less.

Diminishing marginal rate of substitution.

**124. If the market price for a competitive firm's output doubles then:**

Select correct option:

The profit maximizing output will double.

The marginal revenue doubles.

**At the new profit maximizing output, price has increased more than marginal cost.**

At the new profit maximizing output, price has risen more than marginal revenue.

**125. The long run supply curve in a constant-cost industry is linear and:**

Select correct option:

**Upward-sloping.**

Downward-sloping.

Horizontal.

Vertical.

**126. Marginal revenue, graphically, is:**

Select correct option:

**The slope of a line from the origin to a point on the total revenue curve.**

The slope of a line from the origin to the end of the total revenue curve.

The slope of the total revenue curve at a given point.

The vertical intercept of a line tangent to the total revenue curve at a given point.

**127. Elasticity measures:**

Select correct option:

The slope of a demand curve.

The inverse of the slope of a demand curve.

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## ECO 402 Final Term Quiz

**The percentage change in one variable in response to a one percent increase in another variable.**

Sensitivity of price to a change in quantity.

**Which of the following is a positive statement?**

Select correct option:

The minimum wage should not be increased, because to do so would increase unemployment.

Smoking should be restricted on all airline flights.

All automobile passengers should be required to wear seatbelts in order to protect them against injury.

**None of the given options.**

**128. The "perfect information" assumption of perfect competition includes all of the following except one. Which one?**

Select correct option:

Consumers know their preferences.

Consumers know their income levels.

Consumers know the prices available.

**Consumers can anticipate price changes.**

### Quiz 4

**129. In 1970s the federal government imposed price controls on natural gas. Which of the following statements is true?**

Select correct option:

**These price controls caused a chronic excess supply of natural gas.**

Consumers gained from the price controls, because consumer surplus was larger than it would have been under free market equilibrium.

Producers gained from the price controls because producer surplus was larger than it would have been under free market equilibrium.

## ECO 402 Final Term Quiz

This episode of price controls was unusual, because it resulted in no deadweight loss to society.

130. **Our economy is characterized by:**

Select correct option:

**Unlimited wants and needs**

Unlimited material resources

No energy resources

Abundant productive labor

131. **A Rolling Stones song goes: "You can't always get what you want." This echoes an important theme from microeconomics. Which of the following statements is the best example of this theme?**

Select correct option:

**Consumers must make the best purchasing decisions they can, given their limited incomes.**

Workers do not have as much leisure as they would like, given their wages and working conditions.

Workers in planned economies, such as North Korea, do not have much choice over jobs.

Firms in market economies have limited financial resources.

132. **The slope of the total product curve is the:**

Select correct option:

Average product.

Slope of a line from the origin to the point.

Marginal product.

**Marginal rate of technical substitution.**

133. **A firm never operates:**

Select correct option:

**At the minimum of its ATC curve.**

At the minimum of its AVC curve.

On the downward-sloping portion of its ATC curve.

On the downward-sloping portion of its AVC curve.

134. **Indifference curves that are convex to the origin reflect:**

Select correct option:

An increasing marginal rate of substitution.

**A decreasing marginal rate of substitution.**

## ECO 402 Final Term Quiz

A constant marginal rate of substitution.

A marginal rate of substitution that first decreases, then increases.

135. **What does it mean when the CPI is higher this year than last?**

Select correct option:

The rate of inflation has increased.

There has been inflation since last year.

**Real prices have increased.**

Real prices have decreased.

136. **The presence of a learning curve may induce a decision maker in a startup firm to choose:**

Select correct option:

Low levels of output to exploit economies of scale.

High levels of output to exploit economies of scale.

Low levels of output to shift the average cost curve down over time.

**High levels of output to shift the average cost curve down over time.**

137. **Assume that beer is an inferior good. If the price of beer falls, then the substitution effect results in the person buying \_\_\_\_ of the good and the income effect results in the person buying \_\_\_\_ of the good.**

Select correct option:

More, more

More, less

**Less, more**

Less, less

138. **The change in the price of one good has no effect on the quantity demanded of another good. These goods are:**

Select correct option:

**Complements.**

Substitutes.

Both inferior.

None of the given options.

139. **A person with a diminishing marginal utility of income:**

Select correct option:

Will be risk averse.

Will be risk neutral.

## ECO 402 Final Term Quiz

Will be risk loving.  
Cannot decide without more information.

140. **If indifference curves cross, then: Figure Based on figure given above, it can be inferred that:**  
Select correct option:

**The assumption of a diminishing marginal rate of substitution is violated.**

The assumption of transitivity is violated.  
The assumption of completeness is violated.  
Consumers minimize their satisfaction.

141. **Prospective sunk costs:**  
Select correct option:

**Are relevant to economic decision-making.**

Are considered as investment decisions.  
Rise as output rises.  
Do not occur when output equals zero.

142. **The variance of an investment opportunity:**  
Select correct option:

Cannot be negative.  
Has the same unit of measure as the variable from which it is derived.  
**Is a measure of central tendency.**  
Is unrelated to the standard deviation.

### Quiz 5

143. **The shutdown decision can be restated in terms of producer surplus by saying that a firm should produce in the short run as long as:**

Revenue exceeds producer surplus.

**Producer surplus is positive.**

Producer surplus exceeds fixed cost.

Producer surplus exceeds variable cost

144. **me: In an unregulated, competitive market consumer surplus exists because some:**

**Sellers are willing to take a lower price than the equilibrium price.**

Consumers are willing to pay more than the equilibrium price.

Sellers will only sell at prices above equilibrium price (or actual price).

Consumers are willing to make purchases only if the price is below the actual price.



## ECO 402 Final Term Quiz

145. **Rabia and Samina are shopping for new cars (one each). Rabia expects to pay \$15,000 with 1/5 probability and \$20,000 with 4/5 probability. Samina expects to pay \$12,000 with 1/4 probability and \$20,000 with 3/4 probability. Refer to the above scenario, Rabia's expected expense for his car is:**

\$20,000.  
**\$19,000.**  
\$18,000.  
\$17,500.

**An individual consumes only two goods, X and Y. Which of the following expressions represents the utility maximizing market basket?**

MRS<sub>xy</sub> is at a maximum.

$P_x/P_y$  = money income.

MRS<sub>xy</sub> = money income.

**MRS<sub>xy</sub> =  $P_x/P_y$ .**

146. **When the price of wood (which is an input in the production of furniture) falls, the consumer surplus associated with the consumption of furniture:**

**Increases.**

Decreases.

Does not change.

Insufficient information for judgement

147. **The profit maximizing rule  $MC = MR$  is followed by:**

A monopoly, but not a perfectly competitive firm.

**A perfectly competitive firm, but not a monopoly.**

Both a monopoly and a perfectly competitive firm.

Neither a monopoly nor a perfectly competitive firm.

148. **To find the profit maximizing level of output, a firm finds the output level where:**

**Price equals marginal cost.**

Marginal revenue and average total cost.

Price equals marginal revenue.

None of the given options.

149. **Which of the following statements is true regarding the differences between economic and accounting costs?**

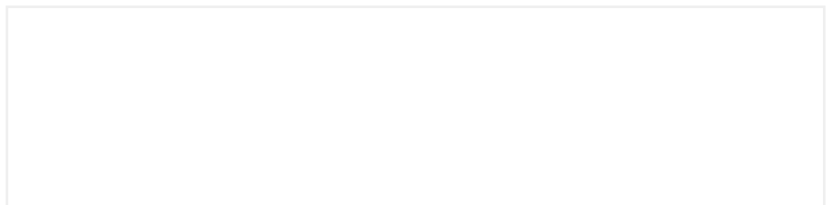
Accounting costs include all implicit and explicit costs.

Economic costs include implied costs only.

**Accountants consider only implicit costs when calculating costs.**

Accounting costs include only explicit costs.

150. **Which of the following is true concerning the income effect of a decrease in price?**



## ECO 402 Final Term Quiz

**It will lead to an increase in consumption only for a normal good.**

It always will lead to an increase in consumption.

It will lead to an increase in consumption only for an inferior good.

It will lead to an increase in consumption only for a Giffen good.

**151. If managers do not choose to maximize profit, but pursue some other goal such as revenue maximization or growth,**

They are more likely to become takeover targets of profit-maximizing firms.

They are less likely to be replaced by stockholders.

They are less likely to be replaced by the board of directors.

They are more likely to have higher profit than if they had pursued that policy explicitly.

**152. Economies of scope refer to:**

**Changes in technology.**

The very long run.

Multiproduct firms.

Single product firms that utilize multiple plants.

1

**153. Suppose that the price of labor (PL ) is \$10 and the price of capital (PK ) is \$20. What is the equation of the isocost line corresponding to a total cost of \$100?**

Select correct option:

PL + 20PK

**100 = 10L + 20K**

100 = 30(L+K)

None of the given options

**154. A monopoly is a market structure characterized by:**

A single buyer.

A product with many close substitutes.

A large number of small firms.

**Limited entry and exit.**

**155. me: Although there are many reasons why a market can be non-competitive, the principal economic difference between a competitive and a non-competitive market is:**

**The extent to which any firm can influence the price of the product.**

The size of the firms in the market.

The annual sales made by the largest firms in the market.

The presence of government intervention.

The extent to which any firm can influence the price of the product.

**156. The shutdown decision can be restated in terms of producer surplus by saying that a firm should produce in the short run as long as:**

## ECO 402 Final Term Quiz

**me:** Revenue exceeds producer surplus.  
Producer surplus is positive.  
Producer surplus exceeds fixed cost.  
Producer surplus exceeds variable cost.

**157. In a short run production process, the marginal cost is rising and the average total cost is falling as output is increased. Thus, marginal cost is:**

Below average total cost.  
Above average total cost.  
Between the average variable and average total cost curves.  
Below average fixed cost.  
2nd , because jab producer surplus positive hai, toh producer will stay in market

**158. An investment opportunity has two possible outcomes, and the value of the investment opportunity is \$250. One outcome yields a \$100 payoff and has a probability of 0.25. What is the probability of the other outcome?**

Select correct option:

0  
0.25  
0.5  
0.75

**159. me: The slope of the total product curve is the:**

Average product.  
Slope of a line from the origin to the point.  
Marginal product.  
Marginal rate of technical substitution.

**160. me: The Clinton administration has recommended an increase in the tax on yachts to help pay for government programs. Which of the following is true?**

Select correct option:

The burden of this tax will fall entirely on yacht manufacturers.  
The sales of yachts will decrease.  
The profit of yacht manufacturers will increase.  
Employment of workers in the yacht industry will increase.

**161. Price ceilings can result in a net loss in consumer surplus when the \_\_\_\_\_ curve is \_\_\_\_\_.**

Demand; very elastic  
Demand; very inelastic

Supply; very inelastic

None of the given options; price ceilings always increase consumer surplus.

**162. For any given level of output:**

Select correct option:

Marginal cost must be greater than average cost.

Average fixed cost must be greater than average variable cost.

Fixed cost must be greater than variable cost.

**None of the given options is necessarily correct**

**163. In the short run, a perfectly competitive firm earning positive economic profit is:**

Select correct option:

On the downward-sloping portion of its ATC.

At the minimum of its ATC.

On the upward-sloping portion of its ATC.

Above its ATC.

**164. if price is between AVC and ATC, the best and most practical thing for a perfectly competitive firm to do is:**

Select correct option:

Raise prices.

**Lower prices to gain revenue from extra volume.**

Shut down immediately, but not liquidate the business.

Continue operating, but plan to go out of business.

**165. Moving down a typical isoquant, the slope of the isoquant :**

Select correct option:

Becomes flatter.

Becomes steeper.

Remains constant.

Becomes linear.

**166. When the federal government installs a price support program that requires the government to purchase all of a good not bought in the private economy at the support price, changes in producer surplus:**

Select correct option:

Are negative.

Are positive, but more than offset by the cost to consumers and the government.

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## ECO 402 Final Term Quiz

Are positive, and not offset by the cost to consumers and the government.  
None of the given options.

167. **One reason individuals are willing to pay for information in uncertain situations is that information:**  
Select correct option:  
Can reduce uncertainty.  
Is a way to diversify.  
Is a method of insurance.  
Always reduces the difference between the probabilities of possible outcomes.
168. **A firm produces leather handbags and leather shoes. If there are economies of scope, the product transformation curve between handbags and shoes will be:**  
Select correct option:  
A straight line.  
Bowed outward (concave).  
Bowed inward (convex).  
A rectangle.
169. **The area below the demand curve and above the price line measures:**  
Select correct option:  
Consumer surplus.  
Economic profit.  
Elasticity of demand.  
The total value obtained from consuming the good or service.
170. **The supply curve for a competitive firm is:**  
Select correct option:  
Its entire MC curve.  
The upward-sloping portion of its MC curve.  
**Its MC curve above the minimum point of the AVC curve.**  
Its MC curve above the minimum point of the ATC curve.

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