

Econ 211
Sample Exam 3

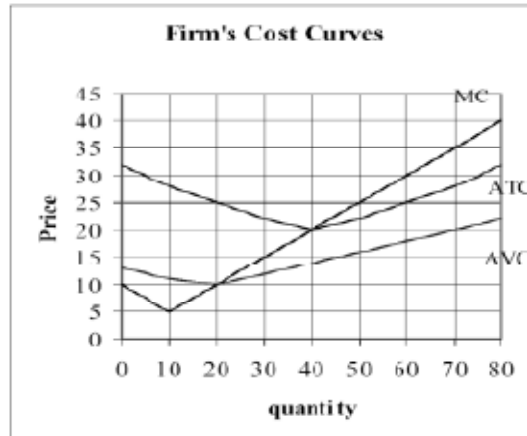
1. Economists assume that the goal of firms is:
 - a) making goods.
 - b) maximizing profits.
 - c) providing employment.
 - d) maximizing market share.
2. Which of the following is an example of an implicit cost?
 - a) the value of the entrepreneur's time
 - b) the wages paid to employees
 - c) the cost of raw materials used in production
 - d) all of the above
3. Katy quits her job as a teacher and uses all of her savings to open Katy's Korner Ice Cream. As a teacher she earned \$30,000 per year. The \$100,000 she took out of savings to buy the business used to earn her \$10,000 per year in interest. Katy's total revenue is \$200,000 and her explicit costs are \$150,000. How much are Katy's economic profits or losses?
 - a) \$50,000 profit
 - b) \$10,000 profit
 - c) \$160,000 profit
 - d) \$80,000 loss
4. The production function tells the relationship between
 - a) the amounts of inputs and the quantities of outputs a firm produces.
 - b) the quantities of outputs and the profits of a firm.
 - c) the amounts of inputs and the profits of a firm.
 - d) the quantity of labor and the quantity of capital a firm uses.
5. Refer to the table below. The table shows the number of flags that can be made per month depending on the number of workers at the Acme Flag Company. Does the Acme Flag Company experience the law of diminishing returns in the table above?
 - a) Yes, because marginal product is decreasing as more workers are added.
 - b) Yes, because total product is increasing as more workers are added.
 - c) Yes, because total product is decreasing as more workers are added.
 - d) No, because marginal product is increasing as more workers are added.

# Workers	Total Output (# of flags made)
0	0
1	50
2	110
3	180
4	260
5	350

6. In the short run, which of the following is a fixed input in production for a firm that makes cheese?
 - a) quantity of milk used
 - b) size of the factory
 - c) hours of labor used
 - d) all of the above
7. The relationship between average and marginal product is such that when:
 - a) average product is greater than marginal product, marginal product will increase.
 - b) marginal product is equal to average product, average product is rising.
 - c) average product is less than marginal product, marginal product will increase.
 - d) marginal product is less than average product, average product will decrease.

8. A business just spent \$100,000 for legal fees in the process of getting a patent for their product. Now that they have the patent, they realize that demand for the product is not as good as they thought. They project their total sales will be \$150,000 and total costs of producing the product (not counting the \$100,000 they already spent in getting the patent) will be \$140,000. Which of the following statements is true?
- a) The \$100,000 is an opportunity cost and should affect their decision. They should not produce and sell the product.
 - b) The \$100,000 is a sunk cost and should not affect their decision. They should go ahead and produce and sell the product.
 - c) The \$100,000 is a sunk cost that should affect their decision. They should not go ahead and produce and sell the product.
 - d) Since their total cost, including the \$100,000 they already spent, is more than their total revenue, they should not produce and sell the product.
9. A sunk cost
- a) is a different name for a fixed cost
 - b) is irreversible and cannot be recovered.
 - c) changes when the level of output changes.
 - d) is relevant to decision making.
10. If the wage rate increases, which of the following will NOT happen?
- a) the total cost curve will shift up
 - b) the total variable cost curve will shift up
 - c) the marginal cost curve will shift up
 - d) the total fixed cost curve will shift up
11. The wage rate is \$5. The output produced by 10 workers is 50 and the output produced by 11 workers is 54. What is the marginal cost of making the 54th unit? (Hint: Remember the Ross Perot equation.)
- a) \$1.00
 - b) \$0.80
 - c) \$1.10
 - d) \$1.25
12. Which of the following is NOT a defining characteristic of perfectly competitive markets?
- a) Many buyers and sellers.
 - b) Unrestricted entry and exit.
 - c) Consumer knowledge about prices charged by each firm.
 - d) Higher prices being charged for certain name brands.
13. If a firm is a price taker, then market price
- a) is the same as marginal revenue.
 - b) is the same as profit.
 - c) is the same as total cost.
 - d) is the same as marginal cost.
14. For a firm that is a price taker, profit is maximized where
- a) price and average cost intersect.
 - b) price and marginal cost intersect.
 - c) average cost and marginal cost intersect.
 - d) total revenue and total cost intersect.

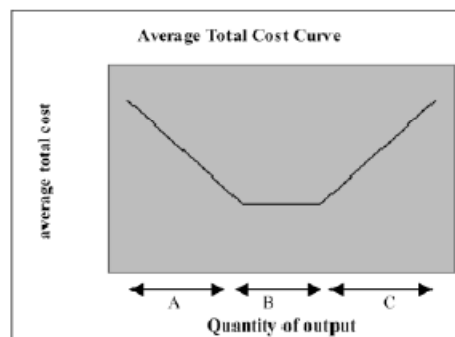
15. Refer to graph below. The graph shows the cost curves for a price-taking firm. What is the minimum market price where a firm will stay open in the short run rather than shut down?
- a) \$20
 - b) \$40
 - c) \$5
 - d) \$10



16. Refer to the table below. If the market price is \$10, what quantity of output would the price-taking firm produce?
- a) 46 units
 - b) 43 units
 - c) 45 units
 - d) 42 units

Quantity Sold	Total Cost
40	\$374
41	376
42	380
43	385
44	390
45	400
46	412
47	425

17. Market power refers to the ability of a firm to influence its
- a) price.
 - b) competition.
 - c) costs.
 - d) output.
18. Refer to the graph below. Over what range does the firm experience diseconomies of scale?
- a) A
 - b) B
 - c) C
 - d) all of the above



19. In a perfectly competitive market in the short run, as market demand increases,
- the perfectly competitive firm increases output and profits will typically increase.
 - the perfectly competitive firm increases output and profits will typically decrease.
 - the perfectly competitive firm decreases output and profits will typically increase.
 - the perfectly competitive firm decreases output and profits will typically decrease.
20. If the firms in a perfectly competitive industry are earning positive profits, firms will _____ the industry and shift the industry supply curve _____.
- enter; to the right
 - leave; to the left
 - leave; to the right.
 - enter; to the left

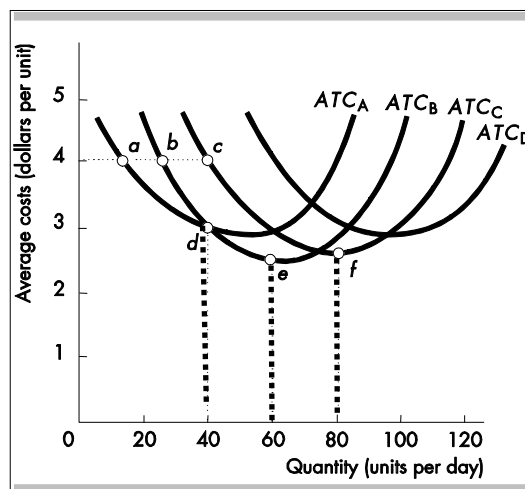
Questions 21 and 23 pertain to the table below.

Daily Productivity at Decent Donuts

Number of Workers	0	1	2	3	4	5	6	7	8	9	10
Total Donuts Produced Daily (Dozens)	0	12	26	44	64	86	110	122	125	127	128

21. Which worker at Decent Donuts has the highest marginal product?
- The fourth
 - The fifth
 - The sixth
 - The seventh
22. If labor is the only variable factor of production, and each worker is paid \$42 per day, what is the average variable cost to Decent Donuts of producing 122 dozen donuts each day?
- \$1.91
 - \$2.16
 - \$2.41
 - \$3.06
23. Which of the following would be classified as a variable cost for the local Texaco gasoline station?
- interest payments to a local bank for a loan.
 - the federal excise tax paid on each gallon of Texaco gasoline sold.
 - the premiums paid for liability insurance, which are fixed at about \$30,000 per year.
 - the local property tax on the building owned by the Texaco operator.
24. Which of the following would cause the MC curve to shift upward at the local Texaco station?
- An increase in the hourly wage that the owner pays his workers.
 - An increase in the sale of gasoline.
 - An increase in the fixed amount of local property tax that the owner pays on the building he owns and uses.
 - A decrease in the wholesale price of gasoline that the station owner buys from a distributor.
25. A firm's long run average total cost curve:
- shows the lowest attainable average total cost of producing any level of output when capital and labor are variable.
 - is U-shaped.
 - tells the firm which plant size to use and which quantity of labor to use to minimize the cost of producing any level of output.
 - All of the above.
26. The assumption that perfectly competitive markets have many sellers, each selling an identical product, leads to the result that:
- consumers get to see a variety of outputs.
 - there are many buyers.
 - economic profits will be positive.
 - firms are price takers.

27. In the long run, perfectly competitive firms earn zero economic profit. This result is due mainly to the assumption of:
- few buyers and sellers.
 - unrestricted entry and exit.
 - firms are price takers.
 - market demand is perfectly elastic.
28. A perfectly competitive firm's short-run supply curve:
- is the same as the marginal cost curve above the shutdown point.
 - is the same as the marginal revenue curve above the shutdown point.
 - is the same as its short-run demand curve.
 - is horizontal at the market price.
29. In the short run, an increase in demand for a product that is sold in a perfectly competitive market will:
- increase the number of firms in the market.
 - increase the profits of existing firms in the market.
 - have no effect on market price.
 - cause more firms to shut down.
30. If a firm shuts down in the short run, it
- earns zero economic profit.
 - incurs an economic loss equal to its total variable cost.
 - incurs an economic loss equal to its total fixed cost.
 - earns a normal profit.
31. If a perfectly competitive industry has constant costs, then any permanent increase in demand will cause the long-run price to:
- increase compared to the initial price, but long-run economic profits will remain zero.
 - be the same as the initial price, but long-run economic profits increase.
 - be the same as the initial price because new firms enter the industry.
 - be the same as the initial price because the supply curve will shift back to its original position.;
32. In a perfectly competitive market,
- price can exceed marginal cost but only in the short run.
 - price can exceed average total cost but only in the short run.
 - a firm can raise its price to increase its profits.
 - a firm can raise its profits by increasing output beyond the point at which $MR=MC$.



33. The average total cost curves for plants A, B, C and D are shown in the above figure. Which plant is best to use to produce 80 units per day?
- Plant A
 - Plant B
 - Plant C
 - Plant D

34. The table above shows Chip's costs. If rice sells for \$700 a ton, Chip's profit-maximizing output is
- zero tons.
 - two tons.
 - three tons.
 - four tons.

Output (tons of rice per year)	Total cost (dollars per ton)
0	\$1,000
1	\$1,200
2	\$1,600
3	\$2,200
4	\$3,000
5	\$4,000

35. Monopolies may be able to earn economic profits in the long run because there are:
- inelastic consumers.
 - free entry and exit.
 - numerous close substitutes for the firm's product.
 - barriers to entry.
36. Which of the following is NOT a barrier to entry for a monopolist?
- Economies of scale for the relevant range of output.
 - A patent on the product being sold.
 - The ability to charge a price that is above marginal cost.
 - Receiving a government authorized monopoly.
37. If a monopolist wants to sell a greater quantity of output, it must
- lower its price.
 - raise its price.
 - tell consumers to buy more because it's a monopolist.
 - raise its marginal cost.
38. A single-price monopoly can sell 2 units for \$8.50 per unit. In order to sell 3 units, the price must be \$8.00 per unit. The marginal revenue from selling the third unit is
- \$24.00.
 - \$8.50.
 - \$8.00.
 - \$7.00
39. The demand curve facing the monopolist is
- the same as the market demand curve.
 - more elastic than the market demand curve.
 - less elastic than the market demand curve.
 - upward sloping.
40. For a single-price monopolist, marginal revenue:
- equals price.
 - is greater than price.
 - is less than price.
 - could be greater than, equal to, or less than price.

41. Assume that at the current output level, a monopolist is earning positive economic profit, has a marginal revenue of \$7, and a marginal cost of \$4. Which of the following is an accurate conclusion with regard to the monopolist's profit?
- the firm is producing the profit maximizing output.
 - the firm could increase its profit by increasing its price.
 - the firm could increase its profit by decreasing its output.
 - the firm could increase its profit by decreasing its price.
 - none of the above

Rooms rented monthly	Price (dollars per room)	Total cost (dollars)
0	201	100
1	191	200
2	181	290
3	171	370
4	161	440
5	151	520
6	141	610
7	131	710
8	121	820
9	111	940
10	101	1090
11	91	1290

42. The table above shows the demand and total cost schedule for a monopolist hotel. What is the marginal revenue from renting out the fifth room each night?
- \$111
 - \$141
 - \$151
 - \$161
43. The table above shows the demand and total cost schedule for a monopolist hotel. What price should the monopolist charge if it is a profit maximizer?
- \$171
 - \$161
 - \$151
 - \$141
44. Which of the following is an example of price discrimination?
- UPS charges more if a package is sent from New York to Hawaii and less if it is sent from New York to New Jersey.
 - Frank's Furniture shop charges no delivery fee for furniture delivered within Dutchess County but charges \$40 delivery fee outside of the county.
 - Albert pays 25 percent less on prescription drugs because he is a senior citizen.
 - All are examples of price discrimination.
45. If a monopolist wants to sell a greater quantity of output, it must
- lower its price.
 - raise its price.
 - tell consumers to buy more because it's a monopolist.
 - raise its marginal cost.

46. Which of the following is NOT a barrier to entry for a monopolist?
- a) Economies of scale for the relevant range of output.
 - b) A patent on the product being sold.
 - c) The ability to charge a price that is above marginal cost.
 - d) Receiving a government authorized monopoly.
47. Relative to a perfectly competitive industry with the same cost and demand, a single-price monopolist produces
- a) more output and has a higher price.
 - b) less output and has a higher price.
 - c) more output and has a lower price.
 - d) less output and has a lower price.
48. In the perfectly competitive guidebook industry, the market price is \$35. A firm is currently producing 10,000 guidebooks; average total cost is \$38, marginal cost is \$30, and average variable cost is \$30. The firm should:
- a) Raise the price of guidebooks, because the firm is losing money
 - b) Keep output the same, because the firm is producing at minimum average variable cost
 - c) Produce more guidebooks, because the next guidebook produced increases profit by \$5
 - d) Shut down, because the firm is losing money.
49. The reason a natural monopoly does not face new firms entering the industry is a natural monopoly
- a) has legal protection that prevents other firms from competing.
 - b) earns zero profits so firms don't have a reason to enter the industry.
 - c) can produce at lower costs than the costs smaller, new companies would have.
 - d) owns all of the natural resources used in the production of a product.
50. It is easier for a monopolist to price discriminate between groups for a service than for a product because
- a) it is easier for consumers to resell products rather than services.
 - b) it is easier to distinguish between groups of customers for services than customers for products.
 - c) it is easier to calculate average willingness-to-pay for services.
 - d) customers for products usually do not differ with respect to their average willingness-to-pay.
51. If government regulation sets the maximum price for a natural monopoly equal to its marginal cost, then the natural monopolist will
- a) earn economic losses
 - b) earn economic profits
 - c) earn zero economic profits
 - d) produce a lower quantity of output than is socially optimal
52. Policymakers are discussing various proposals regarding how to deal with natural monopolies. Senator Huff wants to regulate natural monopolies by equating price with average total cost. Huff contends that such a policy will ensure that monopolies make every effort to reduce costs. Senator Puff wants the government to own natural monopolies. Puff argues that government-owned monopolies usually do a better job of holding down costs than privately owned monopolies. Which senator's argument is correct?
- a) Senator Huff
 - b) Senator Puff
 - c) both senators
 - d) neither senator