F10 Micro Final Ex

Student: ____

1. If average movie ticket prices rise by about 5 percent and attendance falls by about 2 percent, other things being equal, the elasticity of demand for movie tickets is about:

   A. 0.0.
   B. 2.5.
   C. 0.6.
   D. 0.4.

2. Monopolistic competition is similar to perfect competition in that:

   A. long-run profits tend to zero in both.
   B. both entail the production of differentiated products.
   C. output is at minimum average total cost in both.
   D. firms advertise in both cases.

3. The short-run elasticity of demand for gasoline sold at gasoline stations is 0.20. If terrorism causes the supply of gasoline to fall, resulting in a 5 percent drop in quantity, then if other things remain the same, the price per gallon will increase by:

   A. 20 percent.
   B. 5 percent.
   C. 4 percent.
   D. 25 percent.

4. For a cartel to be successful in increasing economic profits for its members:

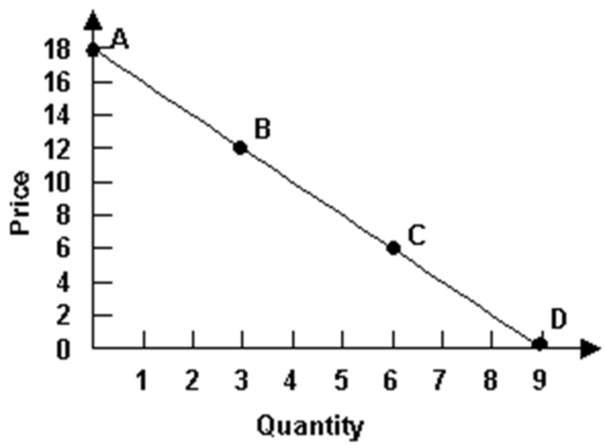
   A. entry of new firms must be blocked.
   B. price must be set equal to average total cost.
   C. individual firms must be encouraged to adjust output so as to maximize their own profits at the cartel price.
   D. price must be set equal to marginal cost.

5. When OPEC reduces output to keep prices high, OPEC is acting as a:

   A. price taker.
   B. producer in a contestable market.
   C. producer moving along a supply curve, cutting output as price falls.
   D. cartel.

6. A price war:

A. occurs only under perfect competition.
B. results in higher profits for sellers.
C. is one possible consequence of oligopolistic rivalry.
D. never occurs in oligopolistic markets.



7. Refer to the graph above. The elasticity of demand is closest to 1 on line segment:

A. The elasticity is not close to one on any of these line segments.
B. CD
C. AB
D. BC

8. If quantity demanded does not change when the price changes, the demand:

A. is perfectly inelastic.
B. is inelastic.
C. is elastic.
D. has unit elasticity.

9. For normal goods, income elasticity is:

A. greater than 0.
B. less than 0.
C. equal to 1.
D. greater than 1.

10. For necessities, income elasticity is any value:

A. less than 0.
B. between 0 and 1.
C. greater than 1.
D. greater than 0.

11. When a country runs a trade surplus, it will:

    A. borrow from foreign countries or sell assets to them.
    B. lend to foreign countries or sell assets to them.
    C. borrow from foreign countries or buy assets from them.
    D. lend to foreign countries or buy assets from them.

12. Myopia and Utopia are two countries with equivalent resources. The country of Myopia can produce up to 100 tons of yak butter or up to 5,000 prayer wheels, if it devotes all its resources to yak butter or all its resources to prayer wheels. Similarly, the country of Utopia can produce up to 500 tons of yak butter or up to 3,000 prayer wheels. We know that the production possibility curves for both Myopia and Utopia are straight lines. If international trade exists between Utopia and Myopia, we would expect to find:

    A. Myopia exporting both goods to Utopia.
    B. Utopia exporting both goods to Myopia.
    C. Utopia exporting prayer wheels and Myopia exporting yak butter.
    D. Myopia exporting prayer wheels and Utopia exporting yak butter.

13. The gains from trade:

    A. tend to go to small countries rather than large countries.
    B. tend to go to countries producing goods with diseconomies of scale rather than to countries producing goods with economies of scale.
    C. accrue primarily to countries, not traders.
    D. accrue primarily to traders when there are no barriers to entry.

14. The text mentions ten sources of U.S. comparative advantage. Which of the following is NOT one of them?

    A. Extensive natural resources
    B. Wealth from past production
    C. English is the international language of business
    D. A substantial policy to limit immigration

15. Which of the following is *not* a free trade association?

    A. Mercosur.
    B. EU.
    C. NATO.
    D. NAFTA.

16. Transshipments, which are commonly used in international trade, tend to:

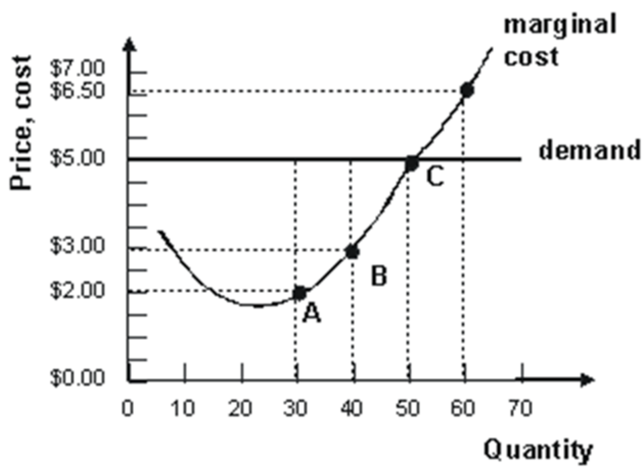
    A. undermine the effectiveness of an embargo.
    B. strengthen the national security argument for trade restrictions.
    C. increase the effectiveness of trade restrictions.
    D. reduce the volume of world trade.

17. A perfectly competitive firm's marginal revenue is:

A. less than the selling price.
B. greater than the selling price.
C. equal to the selling price.
D. sometimes below and sometimes above the selling price.

18. If the marginal revenue of the next widget the firm produces is $50 and its marginal cost is $35, a firm should:

A. reconsider past production decisions.
B. decrease production.
C. increase production.
D. hold production constant.



19. Refer to the graph above. In order to maximize profit, this perfectly competitive firm should produce:

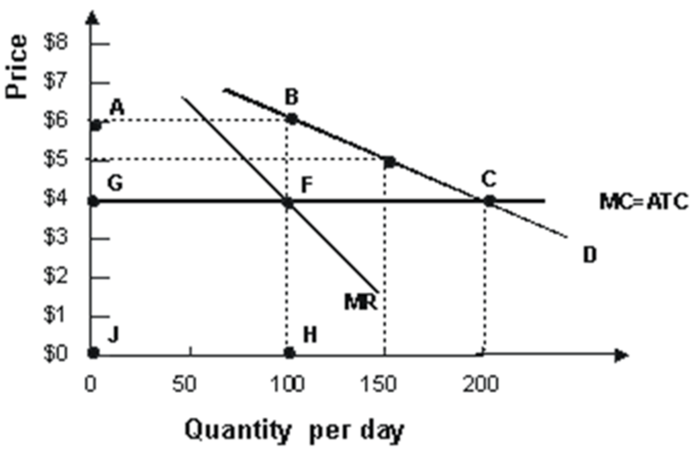
A. 30 units of output.
B. 40 units of output.
C. 50 units of output.
D. 60 units of output.

20. A significant difference between monopoly and perfect competition is that:

A. free entry and exit is possible in a monopolized industry but impossible in a competitive industry.
B. competitive firms control market supply, but monopolies do not.
C. the monopolist's demand curve is the industry demand curve, while the competitive firm's demand curve is perfectly elastic.
D. profits are driven to zero in a monopolized industry, but may be positive in a competitive industry.

21. If MR < MC, the monopolist should:

A. decrease production.
B. increase production.
C. maintain the same level of production.
D. stop producing.



22. Refer to the graph above. If hamburger dinners are produced by a perfectly competitive industry with a market demand D, then:

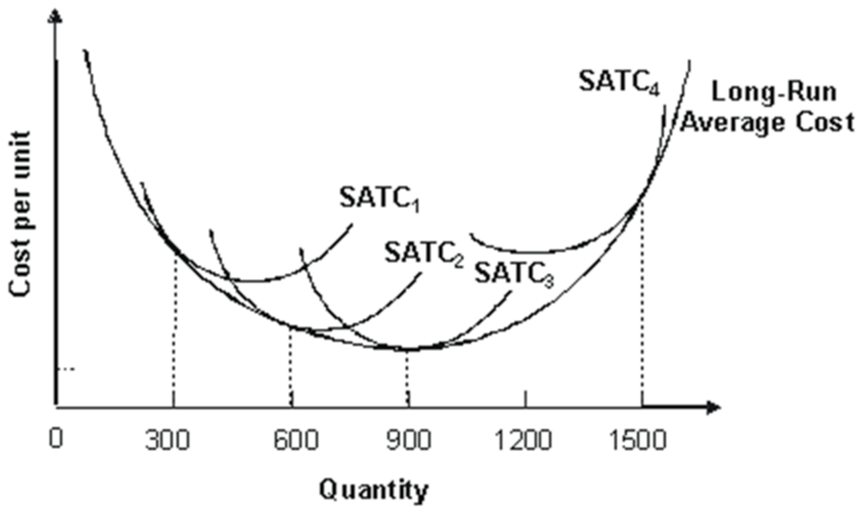
A. output will be the same as it would under monopoly.
B. price will equal marginal cost.
C. price will equal $6.
D. price will be greater than marginal revenue.

23. Refer to the graph above. If hamburger dinners are produced by a pure monopoly firm that maximizes profit, the price of hamburger dinners will be:

A. $ 2.
B. $ 4.
C. $ 5.
D. $ 6.

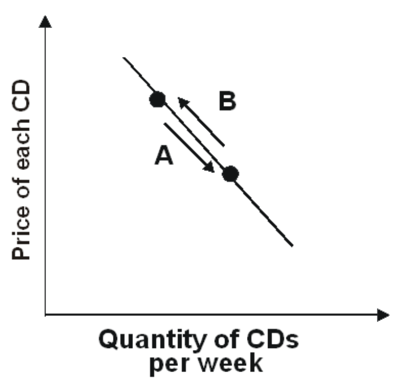
24. Constant returns to scale are associated with a:

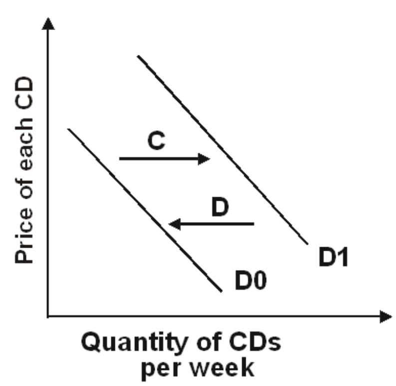
A. horizontal long run average cost curve.
B. horizontal short run average cost curve.
C. downward-sloping long run average cost curve.
D. downward-sloping short run average cost curve.



25. Refer to the graph above. If a firm wants to produce 300 units of output, it should use the plant size represented by:

A. $SATC_1$.
B. $SATC_2$.
C. $SATC_3$.
D. $SATC_4$.





26. Refer to the graphs above. What arrow shows the effect of an increase in the number of consumers in the market on the demand for CDs?

A. A
B. B
C. C
D. D

27. The law of supply states that, other things equal, as the price of a good goes:

A. up, the quantity supplied goes up.
B. up, the supply goes down.
C. down, the quantity supplied goes up.
D. down, the supply goes down.

28. Which of the following would *best* explain a decrease in the supply of squash?

A. An increase in the price of other vegetables.
B. An increase in the price of squash.
C. A decrease in the price of squash.
D. A decrease in the cost of growing squash.

29. If both buyers and sellers expect the price of a commodity to rise in the future, it is likely that equilibrium:

A. price will fall with little change in equilibrium quantity.
B. price will rise with little change in equilibrium quantity.
C. quantity will fall with little change in equilibrium price.
D. quantity will rise with little change in equilibrium price.

F10 Micro Final Ex Key

1. D
2. A
3. D
4. A
5. D
6. C
7. D
8. A
9. A
10. B
11. D
12. D
13. A
14. D
15. C
16. A
17. C
18. C
19. C
20. C
21. A
22. B
23. D
24. A
25. A
26. C
27. A
28. A
29. B

F10 Micro Final Ex Summary

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Topic: Long Run Average Total Cost	1
Topic: Marginal Revenue and Demand Curves	1
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Topic: Price Elasticity of Demand	5
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Topic: Returns to Scale	1
Topic: Shift in Demand	1
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Topic: Trade Agreements	1
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