

Microeconomics Example Final Exam, Fall 2001

Multiple Choice

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

1. The law of demand states (everything else unchanged)
  - a. that goods will be supplied to just equal consumer demand.
  - b.
  - c. that consumers will buy more of a good if its price rises.
  - d. that consumers will buy more of a good if its price falls.
  
2. If there is an increase in the supply of a good,
  - a. the demand for the good will increase.
  - b. the price of the good will fall and the quantity purchased will decrease.
  - c. the price of the good will fall and the quantity purchased will rise.
  - d. the price of the good will rise and the quantity purchased will rise.
  
3. An increase in the price of Ford cars will have what likely effect in the market for Honda cars?
  - a. It will have no effect.
  - b. The demand for Hondas will increase.
  - c. The demand for Hondas will decrease.
  - d. The supply of Hondas will increase.
  
4. If rent controls for apartments were established in Austin below the present going rental rates, we could expect
  - a. a shortage in apartments to develop.
  - b. a surplus in apartments to develop.
  - c.
  - d. a building boom in new apartments to start.
  
5. REPEAT THIS ANSWER 2 TIMES BY GIVING SAME ANSWER IN QUESTIONS 31 AND 32:  
The optimum output for the firm in Figure X (attached to this test) is:
  - a. f, since the marginal revenue curve crosses the LRAC and SRAC curves at output f.
  - b. g, since the SRAC curve (curve c in the diagram) equals long run average cost at output g.
  - c. h, since long run marginal cost crosses the demand curve at output f.
  - d. h, since the firm is a competitive firm.
  - e. g, since the MR curve crosses both the short run and long run marginal cost curves at output g.
  
6. A professional basketball players' union negotiates a contract that dramatically

increases all players' salaries. How would this influence the opportunity cost for a player who was considering giving up basketball to pursue a career in broadcasting?

- a. it would not affect the opportunity cost of playing basketball or of broadcasting
- b. it would increase the opportunity cost of continuing to play professional basketball
- c. it would cause the production possibilities frontier to become convex
- d. it would increase the opportunity cost of becoming a broadcaster
- e. it should have no bearing on the player's decision from an economic standpoint

7. REPEAT THIS ANSWER 3 TIMES BY GIVING SAME ANSWER IN QUESTIONS 42, 43 AND 44:

- a. an increase in non-wage income is likely to reduce the desire to work.
- b. almost any person who has at least some non-wage income will stop working if the wage rate drops low enough.
- c. if the wage rate increases, the "substitution effect" will tend to increase hours worked, while the "income effect" will tend to reduce hours worked.
- d. all of the above.
- e. none of the above.

8. A physician's knowledge and skills is referred to by economists as

- a. human capital
- b. labor
- c. physical capital
- d. entrepreneurship
- e. intellectual raw materials

9. Marginal cost is

- a. the increase in total cost from producing one more unit of output
- b. total variable cost per unit of output
- c. fixed cost per marginal unit
- d. average total cost divided by the quantity of inputs used
- e. total cost per unit of output

10.

- a.
- b. decreases as the firm produces more output
- c. increases as the firm produces more output
- d. decreases if the firm produces less output
- e. is less than price at most possible output levels

11. Imperfect competition differs from monopoly because

- a. only a monopoly faces a downward-sloping demand curve for its product
- b. all imperfectly competitive firms produce the same homogeneous product
- c. no single imperfectly competitive firm can affect the market price
- d. there is more than one seller in imperfect competition

- e. all imperfectly competitive firms are small

12. Consider the typical monopolistically competitive firm whose demand curve and cost structure is illustrated in Figure K-5. Which of the following statements is correct in the long run?

- a. some firms will exit the market, and the demand curves facing any remaining firms will shift rightward
- b. some firms will exit the market, and the demand curves facing any remaining firms will shift leftward
- c. firms will enter the market, and the demand curves facing each remaining firm will shift rightward
- d. firms will enter the market, and the demand curves facing each remaining firm will shift leftward
- e. firms will enter the market, but the demand curves facing each remaining firm will not change

13. REPEAT THIS ANSWER 2 TIMES BY GIVING SAME ANSWER IN QUESTIONS 45 AND 46:

Based on the following facts, how many firms will there be? The lowest point of the typical firm's Marginal Cost curve is at output = 30 units per week and is \$30, the low point of the Long Run Average Cost curve is at output = 40 units per week and is \$40. Here is total industry demand for the product, at various prices: Price \$40, demand 1200 units per week; price \$30, demand 1600 units per week; price \$20, demand 3200 units per week.

- a. 80 firms
- b. 20 firms
- c. 30 firms
- d. less than 20 firms
- e. more than 80 firms

14. Price ceilings are primarily targeted to help \_\_\_\_\_, while price floors generally benefit \_\_\_\_\_.

- a. producers; no one
- b. increase tax revenue for governments; producers
- c. increase tax revenue for governments; consumers
- d. producers; consumers
- e. consumers; producers

15. When the demand for a good is price inelastic, a decrease in total expenditure on the good would result from a(n)

- a. increase in price
- b. decrease in quantity demanded
- c. favorable shift in tastes and preferences
- d. decrease in price
- e. increase in consumers' incomes

16. REPEAT THIS ANSWER 3 TIMES BY GIVING SAME ANSWER IN QUESTIONS 33, 34 AND 35:

In Figure X (attached to this test),

- a. curve 'b' is an average variable cost curve and 'a' is a short run average cost curve.
- b. curves 'a', 'c' and 'e' are long run average cost curves.
- c. curve 'd' is a short run average cost curve and 'b' is a short run marginal cost curve.
- d. curve 'c' is a short run average cost curve and 'd' is an average variable cost curve.
- e. this firm should run in the long run but shut down in the short run.

17. Demand for a good is likely to be less elastic

- a. the more narrowly defined the good is
- b. the larger the good's share of the buyer's budget
- c. in the long run than in the short run
- d. the smaller the number of substitute goods available
- e. at high prices

18. After John's income rose by 8 percent, the amount of chicken he consumed fell by 2 percent. This means that

- a. his income elasticity for chicken is positive
- b. chicken is a normal good for John
- c. his demand curve for chicken shifted to the left
- d. his demand curve for chicken shifted to the right
- e. John is spending more of his income on chicken than before

19. Which panel in Figure E-2 shows the effect of a decrease in the price of apples, other things constant?

- a. panel a
- b. panel b
- c. panel c
- d. panel d
- e. panel e

20. The change in total utility arising from a one-unit increase in consumption of a good is referred to as

- a. average utility
- b. the principle of diminishing marginal utility
- c. real income
- d. marginal utility
- e. price

21. REPEAT THIS ANSWER 2 TIMES BY GIVING SAME ANSWER IN QUESTIONS 36 AND 37:

The following statement can be made about the firm and industry shown in Figure 8 (attached to this exam):

- a. Unless you know the typical firm's long run marginal cost curve (not shown) you
- b. If this LRAC is typical of the firms in this industry, there will be roughly 16 firms in this industry.
- c. If the price in this market is lower than the lowpoint of the long run average cost curve of the typical firm as shown, firms will leave the industry, making room for others to replace them.
- d. If this LRAC is typical of the firms in this industry, there will be roughly 8 firms in this industry.
- e. none of the other answers.

22. If  $MU_x/P_x$  is less than  $MU_y/P_y$ , then the consumer should consume more of X and less of Y.

- a. True
- b. False

23. The opportunity cost of an economic action is
- a. the value of the next best alternative, which must be sacrificed
  - b. an issue in normative economic theory
  - c. the expense for the resources used plus the firm's profit
  - d. the out-of-pocket cost
  - e. the option to pay a reduced fee for the action

24.  
39:

If a firm's demand curve shifts up as in Figure 7) (attached to this exam), the firm will

- a. increase production from  $q_1$  to  $q_2$  in the short run but produce at  $q_3$  in the long run.
- b. increase production from  $q_1$  to  $q_3$  in the short run and then gradually reduce output to  $q_2$  in the long run.
- c. reduce output from  $q_3$  down to  $q_2$  in the short run, and then back up to  $q_3$  in the long run.
- d. definitely be profitable.
- e. both a. and d.

25. According to the law of increasing opportunity cost,
- a. production points outside the production possibility frontier are unattainable
  - b. the production possibility frontier becomes flatter as production increases along the horizontal axis
  - c. the opportunity cost of producing a good rises as production of that good falls

- d. production points inside the production possibility frontier are unattainable
- e. the opportunity cost of producing a good rises as production of that good rises

26. "Senior citizens deserve an income that will allow them to live in comfort for their remaining years." This is

- a. neither a normative nor a positive statement
- b. both a positive and a normative statement
- c. strictly a macroeconomic issue
- d. a positive statement
- e. a normative statement

27.

38:

The firm in Figure 2) (attached to this exam) definitely should

- a.
- b. shut down in the long run but definitely keep operating in the short run.
- c. shut down in the long run but may want to keep running in the short run.
- d. raise its price.
- e. none of the other answers.

28. An economic system in which resources are allocated primarily through prices but are owned primarily by the state is known as

- a. centrally planned socialism
- b. market socialism
- c. centrally planned capitalism
- d. market capitalism
- e. communism

29. REPEAT THIS ANSWER 2 TIMES BY GIVING SAME ANSWER IN QUESTIONS 40 AND 41:

The difference between Figure 5) and Figure 6) (attached to this exam) is

- a. the firm in Figure 6), but not the one in Figure 5), should keep running in the long run.
- b. the firm in Figure 5), but not the one in Figure 6) should keep running in the long run.
- c.
- d.
- e. none of the other answers.

30. An economic system in which resources are owned by the state and allocated by the market is called

- a. market capitalism
- b. market socialism
- c. centrally-planned capitalism
- d. centrally-planned socialism

e. a tradition-based economy

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Answer Section

MULTIPLE CHOICE

1. ANS: D
2. ANS: C
3. ANS: B
4. ANS: A
5. ANS: E     DIF: 3     REF: Theory of the firm
6. ANS: D     DIF: 3     TOP: The Concept of Opportunity Cost
7. ANS: D
8. ANS: A     DIF: 2     TOP: World of Economics
9. ANS: A     DIF: 2     TOP: Costs in the Short Run
10. ANS: A     DIF: 3     TOP: The Marginal Revenue and Marginal Cost  
Approach
11. ANS: D     DIF: 2     TOP: The Concept of Imperfect Competition
12. ANS: A     DIF: 2     TOP: Monopolistic Competition in the Long Run
13. ANS: C
14. ANS: E     DIF: 1     TOP: Price Ceilings
15. ANS: D     DIF: 2     TOP: Elasticity and Total Expenditures
16. ANS: D
17. ANS: D     DIF: 1     TOP: Determinants of Elasticity
18. ANS: C     DIF: 2     TOP: Income Elasticity of Demand
19. ANS: B     DIF: 2     TOP: Changes in the Budget Line
20. ANS: D     DIF: 1     TOP: Utility and Marginal Utility



21. ANS: B
22. ANS: B TOP: Consumer Decision Making
23. ANS: A DIF: 2 TOP: The Concept of Opportunity Cost
24. ANS: A
25. ANS: E DIF: 2 TOP: Production Possibilities Frontiers
26. ANS: E DIF: 2 TOP: Positive and Normative Economics
27. ANS: C
28. ANS: B DIF: 2 TOP: Types of Economic Systems
29. ANS: C
30. ANS: B DIF: 2 TOP: Types of Economic Systems