

Exam 3      Student Name: \_\_\_\_\_  
Microeconomics, several versions  
Exam Dates: Week 15, Spring 2008

**Instructions:**

- I) On your Scantron card you **must** print three things:
  - 1) Print your full name clearly;
  - 2) Print the day and time of your section (for example MW 1:25);
  - 3) Notice the number I have written in ink in the upper right corner of your test? Write that number on the Scantron card. (This number tells me which version of the test you have. Without it your test cannot be graded properly and you get no credit for your answers.)
- II) Answer on your Scantron card, using a #2 pencil.
- III) Warning: **SOME QUESTIONS MUST BE ANSWERED SEVERAL TIMES!** Such questions will begin with a phrase such as this:  
**Repeat this answer on lines 37, 38 and 39.**  
Remember to do it!
- IV) You must turn in this written exam along with your Scantron card or else receive an F for the course.

=====

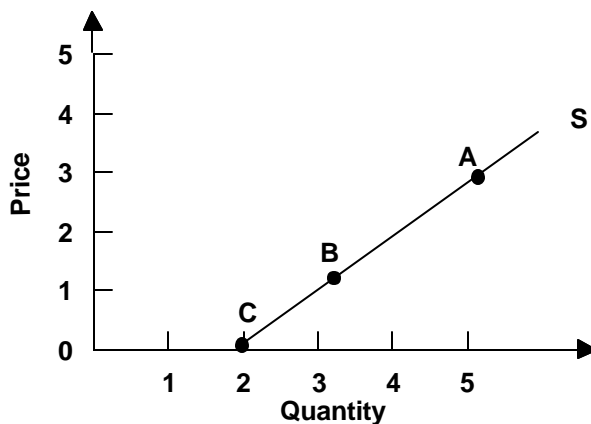
**Questions:**

- 1. The law of demand states (everything else unchanged)
  - A) that goods will be supplied to just equal consumer demand.
  - B) that consumer demand will determine the level of firm supply.
  - 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.
  - E) that demand rises as price falls
  
- 2. **(Repeat answer on Scantron line 29.)** 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) equilibrium rents to fall below the rates set by rent control.
  - D) a building boom in new apartments to start.
  - E) a decrease in the quantity demanded of apartments

3. **(Repeat answer on Scantron line 30.)** Officials at City Bus Corporation increased fares (prices last year and were surprised to find that total revenue fell that year instead of increasing as expected. This tells us that
- A) the demand for bus rides is income elastic.
  - B) the demand for bus rides is price inelastic.
  - C) the demand for bus rides is price elastic.
  - D) bus rides are inferior goods.
  - E) someone at City Bus Corp. is embezzling funds because a fare increase should have meant an increase in total revenue.
4. **(Repeat answer on Scantron lines 31 and 32.)** A monopolist, just like any other business,
- A) has no control over the price at which it sells its product.
  - B) will price its product so that marginal cost equals marginal revenue.
  - C) almost always has at least one competitor.
  - D) cannot ever price discriminate.
  - E) always will sell its product at a price high enough to cover the cost of production and also earn a profit.
5. **(Repeat answer on Scantron line 33.)** Select the best answer. The Fundamental Theorem of Welfare Economics tells us, roughly,
- A) that high welfares are very important to the individuals who live in an advanced economy.
  - B) that you cannot have more of one thing without having less of at least one other thing.
  - C) that high welfares are important, but are not everything.
  - D) that an economic system with many buyers and many sellers in all markets will be maximally efficient.
  - E) that the existence of money is crucial if an economy is to achieve high incomes.
6. **(Repeat answer on Scantron line 34.)** GreenTree Corporation sells live Christmas trees. It observes that when it decreases the price of Christmas trees by 10%, revenue rises by 25%, the demand for Christmas trees must be:
- A) inelastic.
  - B) elastic.
  - C) unit elastic.
  - D) perfectly elastic.
7. A price elasticity of demand for a good or service of 2.5 tells us that:
- A) the price changes by \$2.50 when quantity changes by one unit.
  - B) quantity demanded decreases by 2.5% when price rises by 1%.
  - C) the price rises by 2.5% when quantity demanded falls by 1%.
  - D) quantity demanded falls by 2.5 units when price changes by \$1.

8. **(Repeat answer on Scantron line 35.)** If the price elasticity of supply is 2, then a 10 percent increase in price will cause a:
- A) 5 percent increase in quantity supplied.
  - B) 5 percent decrease in quantity supplied.
  - C) 20 percent increase in quantity supplied.
  - D) 20 percent decrease in quantity supplied.
9. Along a straight line demand curve, slope \_\_\_\_\_ and elasticity \_\_\_\_\_ as price declines.
- A) rises, rises
  - B) declines, declines
  - C) declines, rises
  - D) remains the same, declines

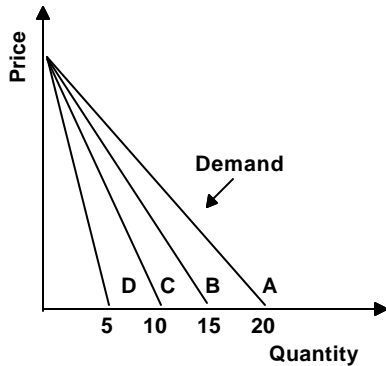
Use the following to answer question 10:



10. **(Repeat answer on Scantron line 36.)** Refer to the graph above. Elasticity is greatest at point:
- A) A.
  - B) B.
  - C) C.
  - D) It is the same everywhere along this supply curve.
11. Monopolistic competition is a market structure in which:
- A) many firms sell differentiated products.
  - B) a few firms engage in strategic pricing.
  - C) one firm sets price and output.
  - D) many firms sell identical products.

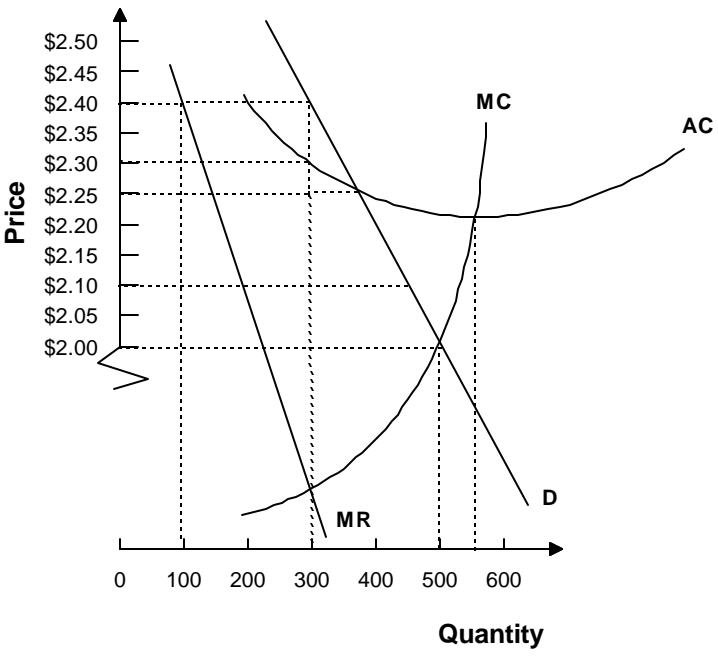
12. **(Repeat answer on Scantron line 37.)** Monopolistically competitive firms:
- A) persistently earn economic profits in both the short run and the long run.
  - B) earn zero economic profits in the long run.
  - C) earn positive economic profits in the long run.
  - D) incur losses in the long run.

Use the following to answer question 13:



13. **(Repeat answer on Scantron line 38.)** Refer to the graph above. Given that the demand curve is curve A, the marginal revenue curve facing this monopolist is:
- A) A.
  - B) B.
  - C) C.
  - D) D.
14. Natural monopoly exists when one firm can supply the entire output demanded at:
- A) higher cost than two or more firms.
  - B) lower cost than two or more firms.
  - C) the same cost as two or more firms.
  - D) a cost of zero.

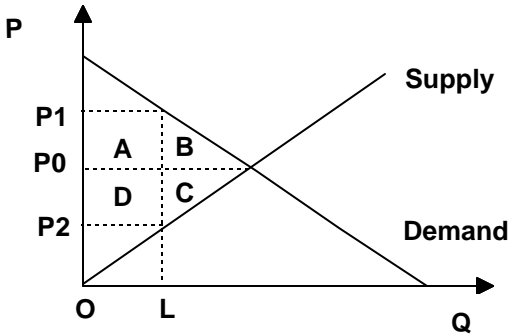
Use the following to answer question 15:



15. **(Repeat answer on Scantron lines 39 and 40.)** Refer to the graph above. If this monopolist were allowed to choose the profit-maximizing level of output, it would produce:
- A) 100 units of output.
  - B) 300 units of output.
  - C) 500 units of output.
  - D) 550 units of output.
16. \_\_\_\_\_ is an example of a legal monopoly.
- A) A patent
  - B) A price support
  - C) A tariff
  - D) A subsidy
17. Having government buy patent rights has been suggested as an alternative to regulating the price charged by a patent-holding monopolist. The major benefit of this approach is that:
- A) government would have to increase taxes to cover the cost of the buyout.
  - B) it would be difficult for government to determine which patents to buy.
  - C) it could have negative incentive effects.
  - D) it would maintain the incentive for companies to engage in research and development.

18. **(Repeat answer on Scantron line 41.)** A market structure in which there are a few firms that engage in strategic pricing is called:
- A) monopolistic competition.
  - B) monopoly.
  - C) oligopoly.
  - D) perfect competition.
19. **(Repeat answer on Scantron line 42.)** Price discrimination occurs when:
- A) buyers are divided into two or more groups each paying a different price.
  - B) buyers receive maximum consumer surplus.
  - C) each consumer is charged the same price, but that price is greater than marginal cost.
  - D) profits are driven to zero.
20. Cartels are organizations that seek to:
- A) ensure ease of entry by new firms.
  - B) encourage price wars.
  - C) limit output in order to raise product price.
  - D) encourage takeover of specific industries by a single seller to establish monopolies.
21. **(Repeat your answer on Scantron lines 43 and 44.)** A firm produces electric motors. Here is the data for the resources the firm purchases: The price of rotors is \$2 per rotor, and the marginal product of rotors is 1 motor per rotor. The salary of electricians is \$20 per hour and the marginal product of electricians is 10 motors per hour of work. Also, the marginal product of an extra dollar spent on pencils is 3 motors per dollar spent. Evaluate the following statements and choose the best answer.
- 1) Whatever dollars the firm is spending, it should decrease the portion spent on pencils and increase the proportion spend on rotors, electricians or both.
  - 2) This data proves the firm is not a well-run firm.
- A) Only statement 1 is true.
  - B) Only statement 2 is true.
  - C) Both statements are true.
  - D) Neither statement is true.

Use the following to answer question 22:



22. Refer to the graph above. If suppliers restrict output to  $OL$ , what area represents the welfare loss to society?
- A)  $A + B$ .
  - B)  $B + C$ .
  - C)  $C + D$ .
  - D)  $A + D$ .
23. A firm is making no profit. If there is X-inefficiency, what can we conclude?
- A) The firm is operating at least cost.
  - B) The firm is operating using the fewest inputs possible.
  - C) The firm is operating less efficiently than economically possible.
  - D) We can say nothing about the efficiency of the firm.
24. \_\_\_\_\_ is the market structure that economists believe to be the most dynamically efficient.
- A) Perfect competition
  - B) Monopolistic competition
  - C) Oligopoly
  - D) Monopoly
25. **(Repeat answer on Scantron line 45.)** The U.S. economy is currently financing its trade deficit by:
- A) selling domestic assets like stocks, bonds, and real estate to foreign investors.
  - B) buying foreign assets like stocks, bonds, and real estate.
  - C) retiring stocks and bonds held by foreigners.
  - D) relying on foreign aid.

26. **(Repeat answer on Scantron line 46.)** All of the following are free trade associations *except*:
- A) EU.
  - B) NAFTA.
  - C) Mercosur.
  - D) NATO.
27. **(Repeat answer on Scantron line 47.)** The Robinson-Patman Act effectively made it illegal for many firms to:
- A) use union labor.
  - B) raise prices.
  - C) lower prices.
  - D) lower production costs.
28. **(Repeat your answer on Scantron lines 48, 49 and 50.)** Suzy has just finished her economics exam and must decide whether to spend it: a) going home and just sitting around; b) going to the sauna; c) having a couple of margaritas, or; d) going to a movie. She can do one, all, none, or any two of these things. The question is, what should she do? Here is the data: It doesn't cost anything to go home and just sit around. The marginal utility of the sauna is 40 utils and the price is \$10. The marginal utility of the two margaritas is 45 utils and the price is \$9 for two margaritas. The marginal utility of going to the movie is 50 utils and the price is \$10. Suzy's marginal utility of a dollar is 6 utils per dollar. Choose the best answer from A) through E).
- A) Choose only a.
  - B) Choose only b.
  - C) Choose only c and d
  - D) Do only b, c and d.
  - E) Choose only b and c.



## Answer Key

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