

Name \_\_\_\_\_

You may not discuss this test in any way shape or form with anyone before 1500 Thursday, October 27, 2010.

**MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.**

- 1) The primary goal of a business firm is to
  - A) make a quality product.
  - B) increase its production.
  - C) promote workforce job satisfaction.
  - D) maximize profit.
  - E) promote fairness.
  
- 2) Jennifer owns a pig farm near Salina, Kansas (Don't laugh! If you want to start a livestock farm, start with hogs. Do you know why?). Last year she earned \$39,000 in total revenue while incurring \$38,000 in explicit costs (wages, feed, interest on loans for equipment). She could have earned \$27,000 as a teacher in Salina. These are all her revenue and costs. Therefore Jennifer earned an
  - A) economic profit of \$1,000.
  - B) accounting profit of \$1,000 but incurred an economic loss of \$26,000.
  - C) accounting profit of \$1,000 but incurred an economic loss of \$38,000.
  - D) accounting profit of \$1,000 but incurred an economic loss of \$65,000.

Quantity of labor (workers)	Total product (lawns mowed per week)
0	0
1	30
2	55
3	75
4	80
5	82

- 3) Kenya owns a lawn mowing company. His total product schedule is in the above table. The marginal product of the fourth worker is \_\_\_\_\_ lawns mowed per week.
  - A) 320
  - B) 80
  - C) 25
  - D) 5
  - E) 20

Quantity of labor (workers)	Total product (hair stylings per day)
0	0
1	10
2	25
3	45
4	60
5	70

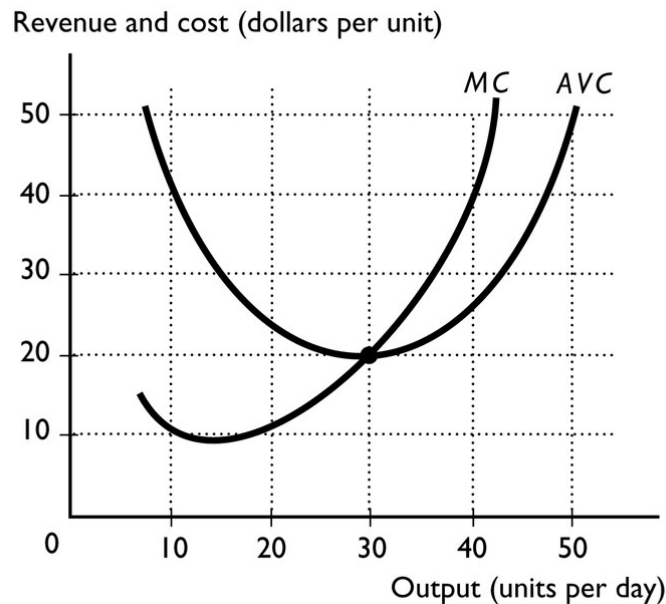
- 4) The above table shows the total product schedule for Hair Today, a hair styling salon. Based on the table, the marginal product for Hair Today
  - A) reaches a maximum with the 3rd worker.
  - B) decreases after the 1st worker.
  - C) reaches a maximum with the 5th worker.
  - D) never reaches a maximum.
  - E) reaches a maximum with the 4th worker.



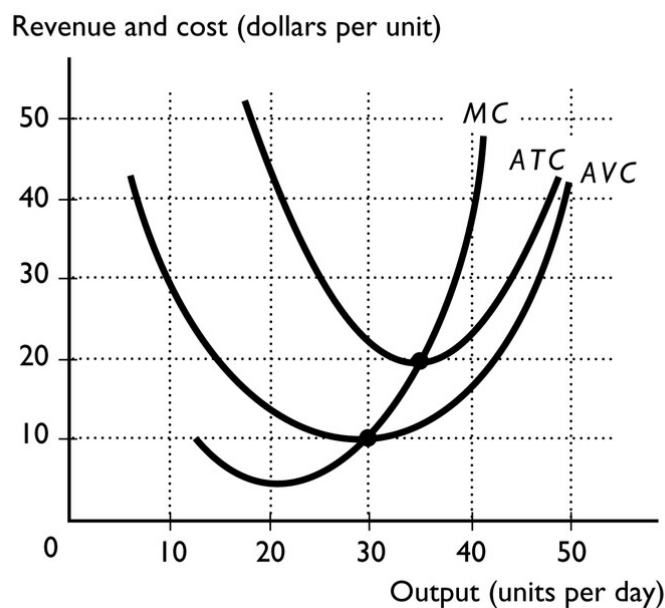
E) average total cost curve.

- 8) If a company triples its plant size (Hint: plant size increasing means long run) and its average cost decreases, then the firm is definitely experiencing
- A) increasing marginal returns.
  - B) economies of scale.
  - C) decreasing marginal returns.
  - D) diseconomies of scale.

- 9) In which market structure do firms exist in very large numbers, information about the market space is free and open, each firm produces an identical (homogeneous) product, there is frictionless/easy entry and exit?
- A) oligopoly
  - B) monopoly
  - C) perfect competition
  - D) monopolistic competition



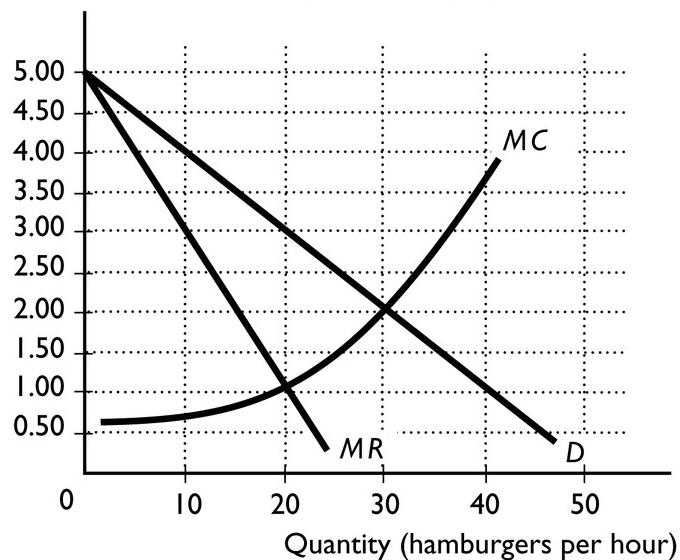
- 10) The above figure illustrates a perfectly competitive firm. If the market price is \$40 a unit, to maximize its profit (or minimize its loss) the firm should
- A) produce more than 10 and less than 30 units.
  - B) shut down.
  - C) produce 30 units.
  - D) produce 40 units.
  - E) produce more than 30 units and less than 40 units..
- 11) Mark owns a cattle ranch near Hugo, Oklahoma. Mark is currently producing beef at an output level where marginal revenue exceeds marginal cost. In order to maximize his profit, Mark should
- A) decrease his output.
  - B) not change his output.
  - C) increase his output.
  - D) shut down his ranch.
- 12) If a perfectly competitive firm (a price taker) finds that the price exceeds its *ATC*, then the firm
- A) is earning an economic profit.
  - B) will raise its price to increase its economic profit.
  - C) is earning only a normal profit.
  - D) will lower its price to increase its economic profit.
  - E) is incurring an economic loss.



- 13) The above cost curves show a perfectly competitive firm. If the market price is \$5 per unit, the firm
- will stay open to produce and will earn a normal profit.
  - will stay open to produce and will incur an economic loss.
  - will definitely shut down to minimize its losses.
  - will stay open to produce and will earn an economic profit.
- 14) When new firms enter the perfectly competitive Miami bagel market, the market
- supply curve does not change.
  - demand curve shifts rightward.
  - supply curve shifts rightward.
  - supply curve shifts leftward.
  - demand curve shifts leftward.
- 15) The hog market is perfectly competitive, with thousands of hog farmers. In the 1990s there was economic profit in the hog market; new hog farmers entered the hog market, increasing Supply driving the price of pork down (Demand stayed the same). Initially, entry of new hog farmers \_\_\_\_\_ the economic profit of the initial hog farmers and in the long run hog farmers \_\_\_\_\_.
- increased; earned a normal profit
  - increased; earned an economic profit
  - decreased; incurred an economic loss
  - decreased; earned a normal profit
  - increased; earned an even greater economic profit than initially
- 16) If the technology associated with producing fiber-optic cable continues to improve, over time the cost of producing fiber-optic cable will
- decrease, firms that do not use the new technology will earn an economic profit, and in the long run new firms will enter the market.
  - decrease, firms that use the new technology will earn an economic profit, and in the long run new firms will enter the market.
  - increase, firms that use the new technology will earn an economic profit, and in the long run new firms will enter the market.
  - increase, firms that use the new technology will incur an economic loss, and in the long run some firms will exit the industry.
  - decrease, firms that use the new technology will incur an economic loss, and in the long run some firms will exit the industry.
- 17) A monopoly produces a product \_\_\_\_\_ and there \_\_\_\_\_ barriers to entry into the market.
- slightly different from those of its many competitors; are

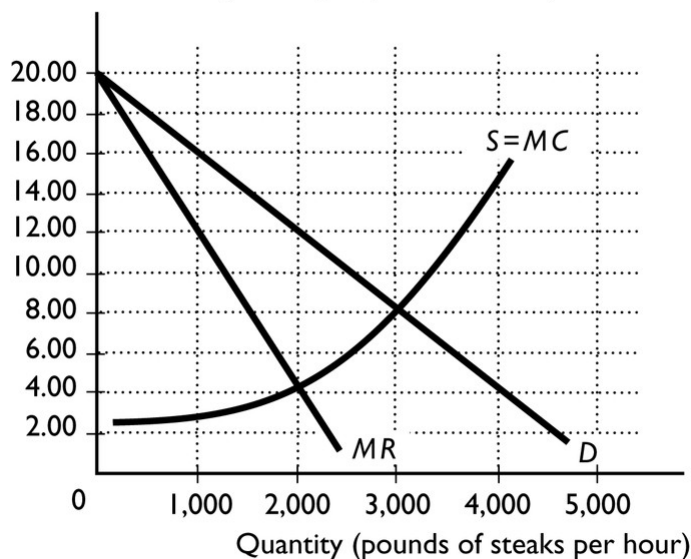
- B) identical to its many competitors; are not  
 C) with no close substitutes; are not  
 D) with no close substitutes; are  
 E) identical to its many competitors; are
- 18) A monopoly will arise if  
 A) two out of three of a town's pizzerias go out of business and only one new pizzeria opens.  
 B) several big pizza chains force several small pizzerias out of business.  
 C) the town council passes a law granting Nick's Pizza the exclusive right to operate in that town.  
 D) people decide they like pizza more than before so some pizzeria's gain new customers.  
 E) Papa Joe's Pizza becomes the largest pizza producer in town and Nick's Pizza stays small in size.
- 19) A single-price monopoly has a marginal revenue curve that is  
 A) vertical at the profit-maximizing quantity.  
 B) downward sloping and above the demand curve.  
 C) upward sloping and equal to the supply curve.  
 D) downward sloping and below the demand curve.  
 E) horizontal and equal to price.
- 20) To maximize its profit (or minimize loss), a single-price monopoly determines the amount of output to produce so that its marginal revenue  
 A) exceeds its marginal cost but not necessarily by as much as possible.  
 B) equals its marginal cost.  
 C) exceeds its marginal cost by as much as possible.  
 D) is less than its marginal cost.  
 E) equals zero.

Price and cost (dollars per hamburger)



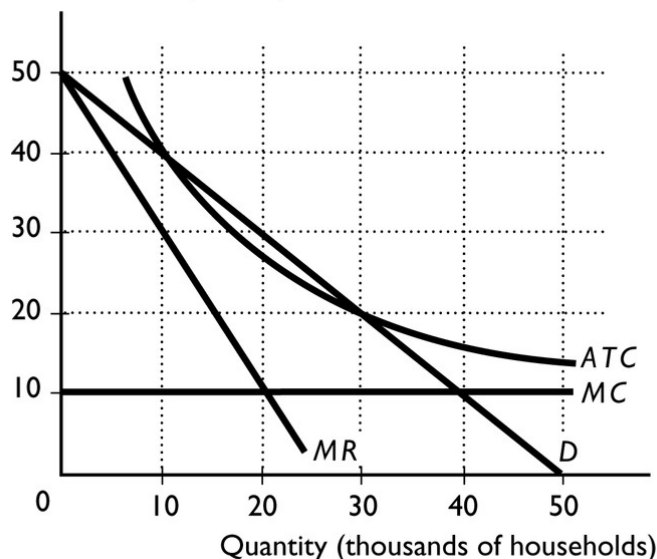
- 21) Suppose the Busy Bee Caf<sup>e</sup> is the monopoly producer of hamburgers in Hugo, Oklahoma. The above figure represents the demand, marginal revenue, and marginal cost curves for this establishment. In order to maximize profit, the Busy Bee produces \_\_\_\_\_ hamburgers per hour and sets a price of \_\_\_\_\_ per hamburger.  
 A) 50; \$5.00      B) 20; \$1.00      C) 30; \$4.00      D) 20; \$3.00      E) 30; \$2.00

Price and cost (dollars per pound of steak)



- 22) Suppose the grocery store market in Kansas City is perfectly competitive. Then one store buys all the others and becomes a single-price monopoly. The figure above shows the relevant demand and cost curves. When the market is perfectly competitive, the price of a pound of steak is \_\_\_\_\_ and when it is a monopoly, the price of a pound of steak is \_\_\_\_\_.
- A) \$8; \$4                      B) \$8; \$12                      C) \$4; \$8                      D) \$4; \$20                      E) \$4; \$12
- 23) Compared to a single-price monopoly, when a monopoly can perfectly price discriminate, the deadweight loss
- A) increases.                      B) remains the same.                      C) decreases.                      D) becomes infinite.

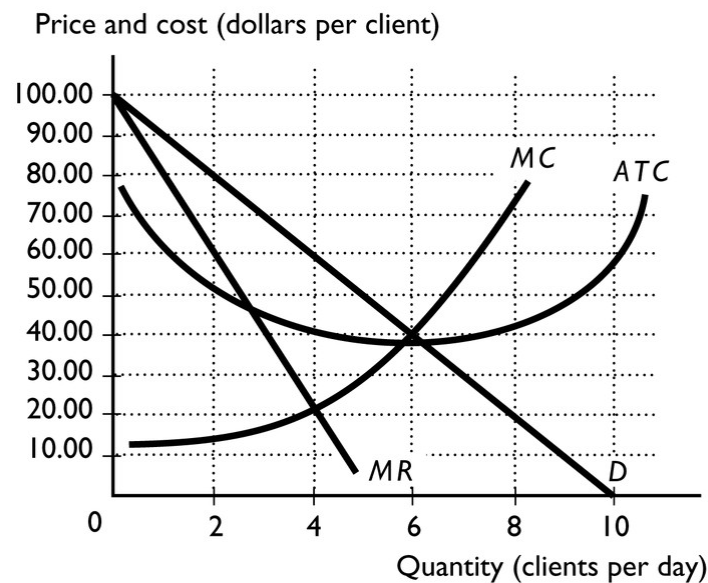
Price and cost (dollars)



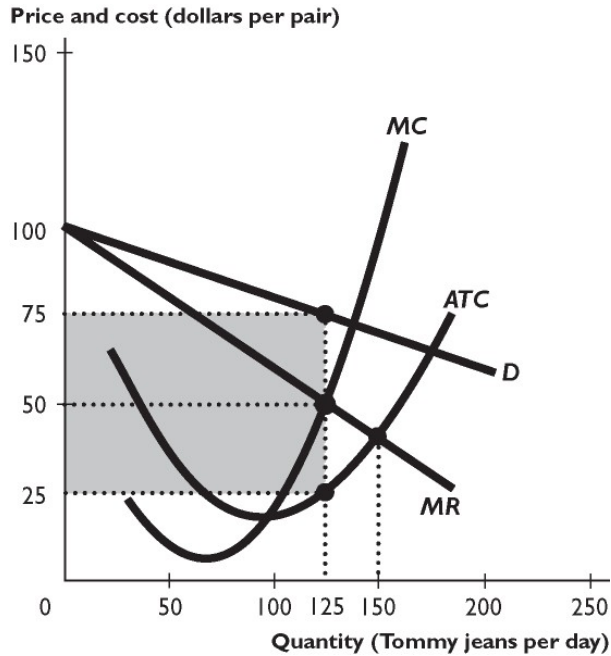
- 24) The above figure represents the market for cable television in Oakland, Florida. Time Warner Communications (TWC) is the sole provider of cable television to the residents of this Central Florida community. Compared to a marginal cost pricing rule where TWC loses money (perhaps made up by taxing people who do not even connect to cable), under an average cost pricing rule, TWC \_\_\_\_\_ output by \_\_\_\_\_ households but breaks even.
- A) decreases; 40,000  
 B) increases; 20,000

- C) increases; 30,000
- D) decreases; 50,000
- E) decreases; 10,000

- 25) Monopolistic competition is identified by
- A) many firms producing identical goods.
  - B) one firm producing a unique good.
  - C) a few firms producing a slightly differentiated product.
  - D) large barriers to entry.
  - E) many firms producing a slightly differentiated product.
- 26) A firm in monopolistic competition has \_\_\_\_\_ over its price and \_\_\_\_\_ over the market average price.
- A) power; power
  - B) power; no power
  - C) no power; power
  - D) power only in the long run; no power
  - E) no power; no power



- 27) Kevin owns a personal training gymnasium in Orlando. The above figure shows the demand and cost curves for his firm, which competes in a monopolistically competitive market. What price will Kevin charge per session?
- A) \$20
  - B) \$80
  - C) \$60
  - D) \$40
  - E) \$100
- 28) Kevin owns a personal training gymnasium in Orlando. The above figure shows the demand and cost curves for his firm, which competes in a monopolistically competitive market. If Kevin trains 5 clients per day, he will \_\_\_\_\_ his profit and will \_\_\_\_\_.
- A) not maximize; incur an economic loss
  - B) not maximize; earn a normal profit anyway
  - C) not maximize; earn an economic profit anyway
  - D) maximize; earn an economic profit
  - E) maximize; earn normal profit
- 29) A firm faces a small number of competitors and keeps close track of the prices charged by those competitors. This firm is competing in
- A) monopolistic competition.
  - B) a monopoly.
  - C) perfect competition.
  - D) an oligopoly.



The figure above illustrates a firm's demand and marginal revenue curves and its cost curves.

- 30) If a firm in the figure above, in an oligopoly market structure, attempted to minimize its average total cost by producing 100 pairs of Tommy jeans per day at an average total cost of \$20 per pair and it sold those jeans for \$80 per pair, the firm would \_\_\_\_\_.
- A) earn a smaller economic profit than a firm that produced 125 jeans
  - B) earn a normal profit, that is, an economic profit of zero
  - C) achieve an efficient use of resources
  - D) earn a larger economic profit than a firm that produced 125 jeans because the ATC of producing 125 jeans is higher than the ATC of producing 100 jeans
  - E) incur an economic loss

		Firm A's strategies	
		$P = \$10$	$P = \$20$
Firm B's strategies	$P = \$10$	\$40 / \$40	\$35 / \$60
	$P = \$20$	\$60 / \$35	\$55 / \$55

- 31) The only two firms in a market are trying to decide what price to charge. The payoff matrix for this duopoly game is shown above. The payoffs are thousands of dollars of economic profit. Firm A will set a price of \_\_\_\_\_ and Firm B will set a price of \_\_\_\_\_.
- A) \$10; \$10
  - B) \$10; \$20
  - C) \$20; \$10
  - D) \$20; \$20
- 32) An price-searcher in an oligopoly market structure wants to operate at  $MR=MC(p,q)$  but joins a cartel and is given a production quota to keep market prices up but at an output less  $MR=MC$ . If that firm in the cartel cheats and increases its production beyond the cartel quota output, that firm's profit \_\_\_\_\_, the other cartel member's profit \_\_\_\_\_, and the total profit of the cartel \_\_\_\_\_.
- A) increases; increases; increases



- B) increases; decreases; decreases
- C) does not change; does not change; does not change
- D) increases; does not change; increases
- E) increases; decreases; does not change

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