Sample Test 3 Ch 10–13

Name___________________________________

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

1) A cost incurred in the production of a good or service and for which the firm does not need to make a direct monetary payment, is referred to as ________ cost.
A) an implicit
B) a minimized
C) an invisible
D) a maximized
E) an explicit

2) Which of the following is an example of an implicit cost?
A) the cost of fuel and materials.
B) the cost of fertilizer for a farmer
C) wages paid to workers
D) rent on a building
E) the economic depreciation of capital equipment the business owns

3) Jill runs a factory that makes lie detectors in Little Rock, Arkansas. This month, Jill's 34 workers produced 690 machines. Suppose Jill adds one more worker and, as a result, her factory's output increases to 700. Jill's marginal product of labor from the last worker hired equals ________.
A) 690 B) 20 C) 10 D) 700

4) The marginal product of labor equals the change in ________ from a one-unit increase in the quantity of labor.
A) average product
B) the slope of the average product curve
C) the wage rate
D) total product
E) total cost

5) In a graph of a typical firm's *AFC*, *ATC*, and *AVC* curves, the
A) *AVC* curve lies above the *ATC* curve.
B) *ATC* curve lies below the *AFC* curve.
C) distance between the *AVC* curve and the *AFC* curve equals the *ATC*.
D) *AVC* curve crosses the *MC* curve at the point where the *MC* is at its minimum.
E) distance between the *ATC* curve and the *AVC* curve equals the *AFC*.

Quantity of labor (workers)	Total product (dogs groomed per week)
0	0
1	40
2	100
3	150
4	190
5	220
6	240

6) Anna owns a dog grooming salon in Brunswick, Georgia. The above table has Anna's total product schedule. Anna pays each worker $300 per week and she pays rent of $600 a week for her salon. These are her only costs. When Anna has a staff of 2 workers, her average fixed cost equals

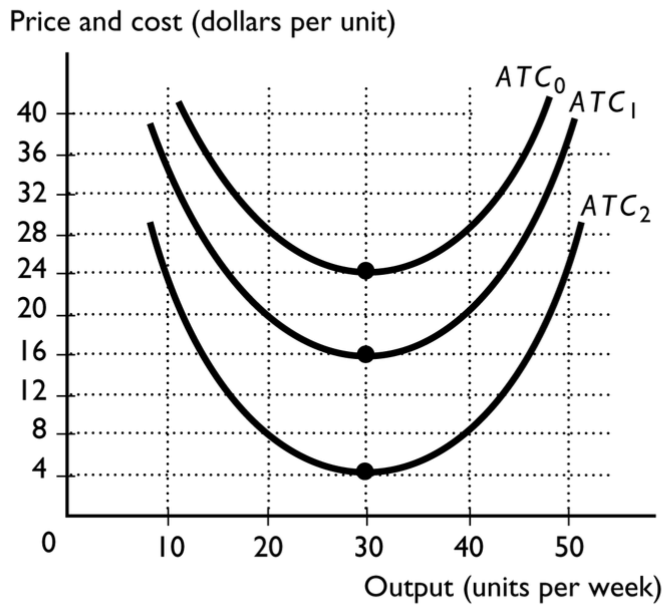
A) $7.50. B) $2,400. C) $6.00. D) $10.00. E) $600.

7) Suppose one week Fresh Cuts Lawn Service hires 10 units of labor and 10 units of capital, and cuts 50 yards. The next week, Fresh Cuts increases its labor and its capital by 10 percent, and cuts 60 yards. Fresh Cuts definitely has experienced

A) increasing returns to scale.
B) increasing marginal returns.
C) decreasing marginal returns.
D) decreasing returns to scale.
E) an increase in its marginal cost.

8) Dr. Khan starts his own dental practice after quitting his $150,000 job at The Mall Dental Clinic. His revenues for the first year are $500,000. He paid $90,000 in rent for the dental office, $60,000 for his office manager's salary, $24,000 for the dental hygienist, $150,000 for insurance, and $6,000 for other miscellaneous costs. The normal profit from running his business is $20,000.

A) His economic profit is $150,000.
B) His accounting profit is $350,000.
C) His accounting profit is zero.
D) His economic profit is zero.



9) The above figure shows three possible average total cost curves. If all firms in a perfectly competitive industry each have an average total cost curve identical to ATC_1, each produce 30 units, and the market price of the good is $16 per unit, then the firms
A) earn a normal profit and new firms enter the market.
B) earn a normal profit and some firms exit the market.
C) earn a normal profit and no firms enter or exit the market.
D) earn an economic profit and new firms enter the market.
E) incur an economic loss and some firms exit the market.

10) The firm's over-riding objective is to
A) earn a normal profit.
B) maximize total revenue.
C) maximize normal profit.
D) avoid an economic loss.
E) maximize economic profit.

11) In the short run, a perfectly competitive firm
A) produces the level of output that sets the average total cost equal to the market price.
B) can vary all its inputs.
C) can change only its fixed inputs.
D) can earn only a normal profit.
E) can possibly earn an economic profit or possibly incur an economic loss.

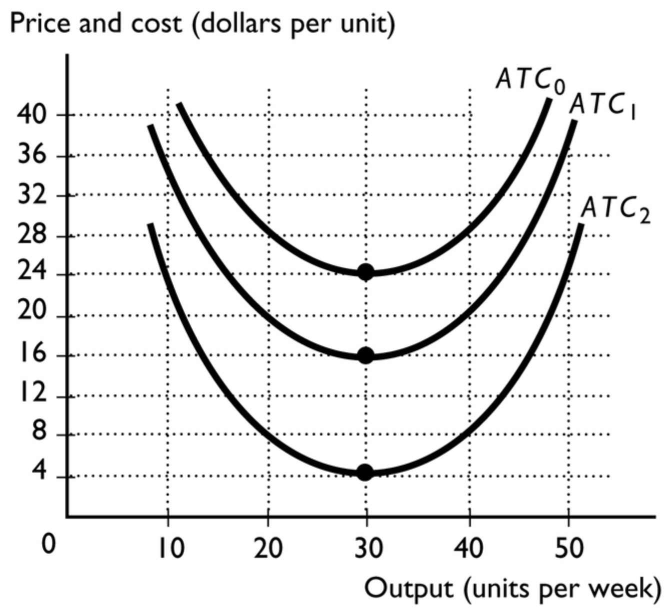
12) Economic profit equals the firm's total revenue minus the
A) economic loss.
B) opportunity costs of production.
C) variable costs of production.
D) normal profit.
E) fixed costs of production.

13) The rutabaga market is perfectly competitive and the price of a ton of rutabagas rises. As a result, Rudy, a rutabaga farmer, will

A) not change his output of rutabagas because Rudy's firm is a price taker.
B) decrease his output of rutabagas.
C) increase his output of rutabagas.
D) at first decrease and then increase his output of rutabagas.
E) probably change his output of rutabagas, but more information is needed about the change in the marginal revenue of a ton of rutabagas.

14) When new firms enter the perfectly competitive Miami bagel market, the market

A) demand curve shifts leftward.
B) supply curve does not change.
C) demand curve shifts rightward.
D) supply curve shifts rightward.
E) supply curve shifts leftward.



15) The above figure shows three possible average total cost curves. If all firms in a perfectly competitive industry each have an average total cost curve identical to ATC_1, each produce 30 units, and the market price of the good is $16 per unit, then the firms

A) earn an economic profit and new firms enter the industry.
B) earn a normal profit and firms neither enter nor exit the industry.
C) incur an economic loss and so new firms enter the industry.
D) incur an economic loss and so some firms exit the industry.
E) earn only a normal profit and so some firms exit the industry.

16) If the market price is $50 per unit for a good produced in a perfectly competitive market and the firm's average total cost is $52, then the firm

A) has a normal profit.
B) has an economic profit of $2 per unit.
C) has an economic loss of $2 per unit.
D) has a total economic loss of $52.

17) Efforts by the government to regulate a firm and bring the price down to competitive levels
A) is what the capture theory of regulation predicts regulators will do.
B) reduces the consumer surplus.
C) creates more deadweight loss.
D) is what the social interest theory of regulation predicts regulators will do.
E) is why rate of return regulation is considered the most efficient type of regulation.

18) If we compare regulating a natural monopoly using marginal cost pricing to that using average cost pricing, we see that output is
A) the same but profits are greater with marginal cost pricing.
B) the same under both cases but the profit is greater with average cost pricing.
C) greater with marginal cost pricing but average cost pricing allows for costs to be covered.
D) greater under average cost pricing but profits are greater with marginal cost pricing.
E) greater with marginal cost pricing and the firm's profit is larger with marginal cost pricing.

19) Comparing a perfectly competitive market to a single-price monopoly with the same costs, we see that
A) both markets are equally efficient in their use of resources.
B) the monopoly market achieves efficiency in resource use while perfectly competitive market does not.
C) the monopoly market always is more efficient in the use of resources.
D) the perfectly competitive market achieves efficiency in resource use while the monopoly market does not.

20) Regulation that motivates firms to reduce costs so that they can make and keep all or part of an economic profit is called
A) marginal profit regulation.
B) price cap regulation.
C) capturing the regulator.
D) exaggerated cost regulation.
E) rate of return regulation.

21) For a natural monopoly, economies of scale
A) lead to a legal barrier to entry.
B) exist along the long-run average cost curve at least until it crosses the market demand curve.
C) as well as constant returns to scale and diseconomies of scale exist along the long-run average cost curve at least until it crosses the market demand curve..
D) are totally absent.
E) and diseconomies of scale exist along the long-run average cost curve at least until it crosses the market demand curve.

22) Under earnings-sharing regulation, if a firm's profits ________ above a certain level, they must be shared with the firm's ________.
A) rise; competitors
B) fall; suppliers
C) fall; customers
D) rise; suppliers
E) rise; customers

23) We define a monopoly as a market with
A) a few suppliers and barriers to entry.
B) one supplier with barriers to entry.
C) one supplier and no barriers to entry.
D) many suppliers with barriers to entry.
E) many suppliers with no barriers to entry.

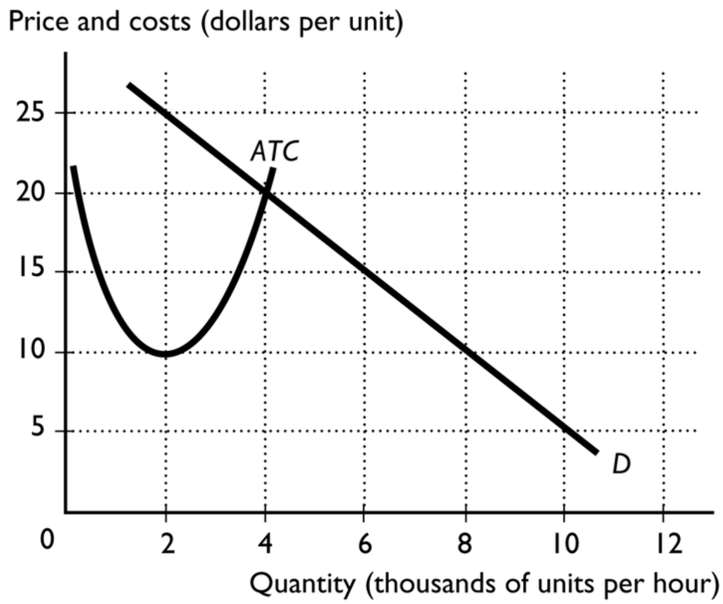
24) Which of the following must exist for a firm to engage in price discrimination?
A) The firm must be able to realize economies of scale.
B) The firm must have no more than one class of buyer.
C) The firm must face an inelastic demand.
D) The firm must be a natural monopoly.
E) The firm must be able to identify and separate its buyers into different classes, and the low-price buyers cannot resell the product to the high-price buyers.

25) The relative freedom of entry and exit in monopolistic competition means that firms
A) enter the market when economic losses are being suffered.
B) exit the market when economic profits are being earned.
C) find it easy to permanently earn an economic profit.
D) enter the market when normal profits are being earned.
E) can enter a market to compete for economic profits and leave when economic losses are being incurred.

26) For a monopolistically competitive firm, the demand curve
A) is vertical.
B) is a horizontal line.
C) is the same as the marginal revenue curve.
D) has a negative slope.
E) has a positive slope.

27) Economists use game theory to analyze strategic behavior, which takes into account
A) monopoly situations.
B) that increased demand decreases the market power of the firms in the market.
C) the price-taking behavior of oligopolists.
D) non-price competition.
E) the expected behavior of others and the recognition of mutual interdependence.

28) The major difference between monopolistic competition and monopoly is
A) only a firm in monopolistic competition can earn an economic profit in the short run.
B) only firms in monopolistic competition are protected by barriers to entry.
C) how the quantity of output is determined.
D) only a monopoly can earn an economic profit in the long run.
E) monopoly is a price setter and a firm in monopolistic competition is a price taker.

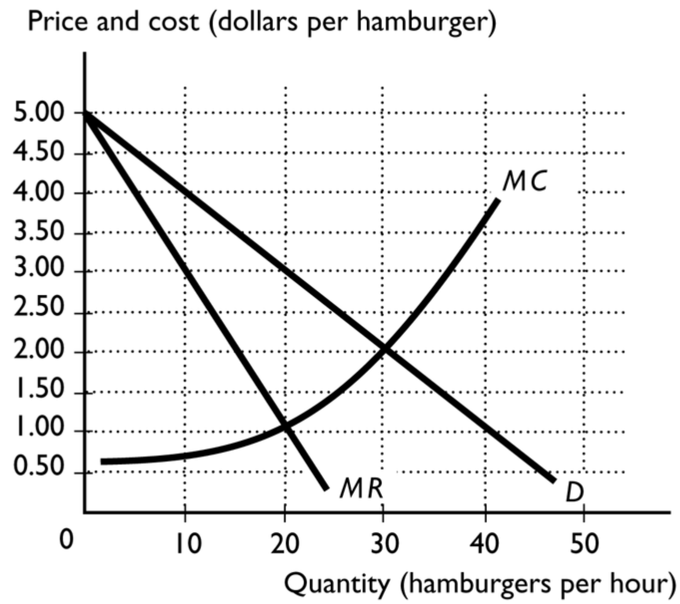


29) The figure above shows the market demand curve and the *ATC* curve for a firm. If all firms in the market have the same *ATC* curve, the lowest price at which a firm could stay in business in the long run is ________ per unit and the quantity demanded in the market at that price is ________ units per hour.

A) $20; 2,000 B) $10; 8,000 C) $20; 4,000 D) $20; 8,000 E) $10; 4,000

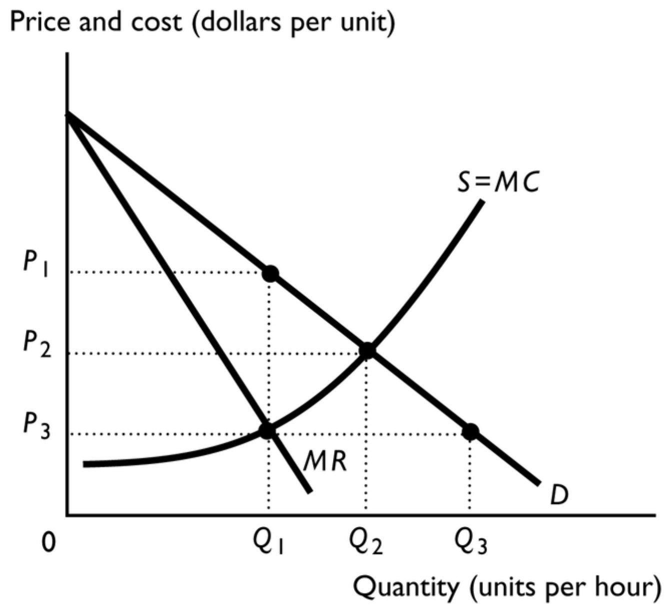
30) A high–quality manufacturer in monopolistic competition charges
A) lower prices and advertises price differences.
B) higher prices and advertises price differences.
C) lower prices and advertises quality differences.
D) higher prices and advertises quality differences.
E) the same price as low–quality manufacturers but advertises quality differences.

31) For a price–searcher, marginal revenue is equal to
A) the price multiplied by the quantity sold.
B) the amount people buy at a given price.
C) the change in total revenue brought about by a one–unit increase in quantity sold.
D) the price of the product.
E) the amount people buy between two prices.



32) Suppose the Busy Bee Café is the price-searcher 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) 30; \$4.00 B) 30; \$2.00 C) 20; \$1.00 D) 20; \$3.00 E) 50; \$5.00



33) Which of the following is true? In the above figure, if the market is

A) perfect competition, output will be $Q3$ and price will be $P3$.

B) a price-searcher, output will be $Q1$ and price will be $P3$.

C) perfect competition, output will be $Q1$ and price will be $P1$.

D) a price-searcher, output will be $Q3$ and price will be $P3$.

E) perfect competition, output will be $Q2$ and price will be $P2$.

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