1. Economic efficiency is achieved at a particular output level if:
   A) marginal cost is as low as possible.
   B) average fixed cost is as low as possible.
   C) average total cost is as low as possible.
   D) average variable cost is as low as possible.

2. To achieve economic efficiency, managers should:
   A) use the highest quality inputs.
   B) use the least costly input combination.
   C) hire the most highly skilled employees.
   D) use the most sophisticated technology.

3. A firm can use 50 workers and 10 machines, 70 workers and 9 machines, or 75 workers
   and 9 machines to produce 40 chairs. If each worker costs $20 and each machine is rented
   for $500, the economically efficient input combination is:
   A) 50 workers and 10 machines.
   B) 70 workers and 9 machines.
   C) 75 workers and 9 machines.
   D) none of these input combinations would be efficient.

4. Since labor is relatively abundant in Bangladesh while land and capital are not, the
   economically efficient method of producing rugs would probably:
   A) be labor intensive.
   B) not be labor intensive.
   C) be capital intensive.
   D) be land intensive.

5. A firm finds that producing 30,000 vases costs $180,000 while producing 40,000 vases
   costs $200,000. This pattern might be explained by:
   A) economies of scope.
   B) economies of scale.
   C) diseconomies of scale.
   D) diminishing marginal productivity.
6. The law of diminishing marginal productivity does not apply in the long-run because:
   A) some inputs are fixed in the long-run.
   B) some inputs are variable in the long-run.
   C) no inputs are fixed in the long-run.
   D) all inputs are fixed in the long-run.

7. Economies of scale occur when a firm's long-run average total cost curve is:
   A) upward sloping.
   B) vertical.
   C) downward sloping.
   D) horizontal.

Use the following to answer questions 8-10:

8. Given the long-run average total cost curve above, the minimum efficient level of production will be 18 if the price the seller expects is roughly:
   A) $50.
   B) $52.
   C) $54.
   D) $58.
9. Refer to the graph above. The output range in region "a" is associated with:
   A) increasing marginal productivity.
   B) constant returns to scale.
   C) economies of scale.
   D) diseconomies of scale.

10. Refer to the graph above. The output range in region "c" is associated with:
    A) diminishing marginal productivity.
    B) constant returns to scale.
    C) economies of scale.
    D) diseconomies of scale.

11. If a firm experiences economies of scale over all relevant levels of output, its long-run average total cost curve will:
    A) slope upward.
    B) be vertical.
    C) slope downward.
    D) be horizontal.

12. The upward-sloping part of the long-run average total cost curve is explained by:
    A) indivisible setup costs.
    B) diseconomies of scale.
    C) output levels that exceed the minimum efficient level of production.
    D) decreasing marginal productivity.

13. Which of the following provides the best explanation for diseconomies of scale?
    A) The presence of fixed inputs.
    B) Reduced monitoring costs.
    C) Loss of team spirit.
    D) Indivisible set-up costs.

14. Diseconomies of scale are associated with all of the following except:
    A) increasing per-unit costs.
    B) improved team spirit.
    C) the long-run.
    D) monitoring costs.
15. In a perfectly competitive market:
   A) individual producers determine market prices.
   B) market supply and market demand determine the price.
   C) the entrepreneur determines the price.
   D) individual consumers determine market prices.

16. Which of the following is *not* one of the necessary conditions for perfect competition?
   A) Complete information.
   B) Large number of firms.
   C) Differentiated products.
   D) No barriers to entry.

17. In a competitive market:
   A) firms produce a differentiated product.
   B) the number of firms is large.
   C) barriers to entry limit the number of firms.
   D) firms maximize profits and minimize costs.

18. A firm is a price taker if:
   A) it sets its own price.
   B) it sets its own price, but only after consulting with other companies.
   C) it sells its output at the market-determined price.
   D) it sets its price based on the demand curve it faces.

19. Perfectly competitive firms:
   A) maximize market share.
   B) maximize total sales.
   C) minimize total costs.
   D) maximize profits.

20. If a firm in a perfectly competitive market experiences a technological breakthrough:
   A) other firms would find out about it eventually.
   B) other firms would find out about it immediately.
   C) other firms would not find out about it.
   D) some firms would find out about it but others would not.
21. In a perfectly competitive market the demand curve faced by an individual firm is:
   A) perfectly inelastic.
   B) relatively inelastic.
   C) perfectly elastic.
   D) relatively elastic.

22. A perfectly competitive seller faces a:
   A) downward sloping demand curve.
   B) downward sloping supply curve.
   C) horizontal demand curve.
   D) horizontal supply curve.

23. The demand curve for a product produced in a perfectly competitive industry is:
   A) a vertical line.
   B) upward sloping.
   C) a horizontal line.
   D) downward sloping.

24. Marginal revenue is equal to:
   A) total revenue divided by its output.
   B) marginal cost.
   C) the change in total revenue associated with a change in quantity.
   D) the change in total profits associated with a change in quantity.

25. The demand curve for a perfect competitor is equal to:
   A) its marginal cost curve.
   B) its marginal revenue curve.
   C) its average total cost curve.
   D) its average fixed cost curve.

26. 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.
27. A market structure in which there are many firms selling differentiated products is called:
   A) monopolistic competition.
   B) monopoly.
   C) oligopoly.
   D) perfect competition.

28. Taking explicit account of a rival's expected response to a decision you are making is called:
   A) economic decision making.
   B) monopolistic decision making.
   C) strategic decision making.
   D) competitive decision making.

29. Strategic decision making is most likely to occur in which market structure?
   A) Monopolistic competition.
   B) Oligopoly.
   C) Perfect competition.
   D) All firms engage in strategic decision making.

30. Which of the following market structures do not have unique price and output decisions at which the firms will rationally arrive?
   A) Oligopoly.
   B) Monopolistic competition.
   C) Perfect competition.
   D) Monopoly.

31. When a monopolistically competitive industry is in long-run equilibrium:
   A) firms earn economic profits.
   B) firms earn zero economic profits.
   C) price equals minimum average total cost.
   D) price equals marginal cost.
32. Under monopolistic competition a firm's ability to influence the price of the product it sells arises because:
   A) sellers in the market have large market shares.
   B) sellers in the market have small market shares.
   C) the product of each seller is differentiated from that of others.
   D) each seller sells a standardized product.

33. In a monopolistically competitive market:
   A) firms produce differentiated products.
   B) there are barriers to entry.
   C) firms produce homogeneous products.
   D) the demand for any firm's product is perfectly elastic.

34. Under monopolistic competition, there:
   A) are few barriers to entry.
   B) are only a small number of sellers in the market.
   C) are significant barriers to entry.
   D) are only a few buyers in the market.

35. A monopolistically competitive firm faces a:
   A) perfectly elastic demand curve.
   B) perfectly inelastic demand curve.
   C) downward-sloping demand curve.
   D) horizontal demand curve.
36. Refer to the graph above. If this monopolistically competitive firm maximizes profit it will:
   A) charge $45 per dress.
   B) charge $78 per dress.
   C) charge $85 per dress.
   D) shutdown because it cannot cover its opportunity costs.

37. A monopoly firm selling textbooks to students in a small town is currently maximizing profits by charging a price of $50 per book. It follows that the marginal cost of textbooks:
   A) is equal to $50.
   B) is less than $50.
   C) is greater than $50.
   D) is greater than the average total cost.
Use the following to answer question 38:

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of Sellers</th>
<th>% of shipments accounted for by the 4 largest companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tires</td>
<td>15</td>
<td>95</td>
</tr>
<tr>
<td>Upholstered furniture</td>
<td>2000</td>
<td>15</td>
</tr>
</tbody>
</table>

38. Refer to the table above. The tire industry is best categorized as:
   A) perfectly competitive.
   B) a pure monopoly.
   C) monopolistically competitive.
   D) oligopolistic.

39. The concentration ratio is defined as:
   A) the percentage of industry output produced by a specific firm.
   B) the percentage of total industry output produced by the top firms.
   C) the squared value of the market shares of all the firms in an industry.
   D) the squared value of the market shares of the largest four firms in the industry.

40. A four-firm concentration ratio of 68 indicates that:
   A) the largest four firms in the industry produce 32 percent of the industry's output.
   B) the smallest four firms in the industry produce 32 percent of the industry's output.
   C) the smallest four firms in the industry produce 68 percent of the industry's output.
   D) the largest four firms in the industry produce 68 percent of the industry's output.

41. The Herfindahl index is calculated by:
   A) adding the squared value of the market shares of all the firms in the industry.
   B) multiplying the squared value of the market shares of all the firms in the industry.
   C) adding the percentage of industry output produced by the largest four firms.
   D) adding the percentage of industry output produced by the largest eight firms.
42. If the marginal revenue of the last 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.

43. The profit-maximizing condition for a perfectly competitive firm is:
   A) MR = P.
   B) MR = AVC.
   C) P = MC.
   D) P = AVC.

Use the following to answer question 44:

44. Refer to the graph above. Currently, the market price is _____ and marginal revenue for the firm is equal to _____.
   A) $6.50; $5.00
   B) $5.00; $3.00
   C) $5.00; $5.00
   D) $6.50; $6.50
45. Monopoly is a market structure where:
   A) one firm makes up the entire market.
   B) a few firms dominate the market.
   C) many firms produce differentiated products.
   D) many firms produce identical products.

46. The demand curve for a monopolist differs from the demand curve faced by a competitive firm because the demand curve for:
   A) a competitive firm lies above its marginal revenue curve.
   B) a competitive firm is inelastic.
   C) a monopolist is the market demand curve.
   D) a monopolist lies below its marginal revenue curve.

47. The demand curve for a monopolist is:
   A) perfectly elastic.
   B) not relevant since the monopolist sets price.
   C) downward sloping.
   D) perfectly inelastic.

48. A pure monopoly:
   A) can influence the price of its product by controlling output.
   B) cannot influence the price of its product.
   C) will always earn economic profits.
   D) faces a perfectly elastic demand curve for its product.

49. If a monopolist increases sales from 10 to 11 by lowering its price from $40 to $38, its marginal revenue is:
   A) $ 2.
   B) $ 18.
   C) $400.
   D) $418.
50. For a monopolist, marginal revenue is:
   A) equal to price.
   B) greater than price.
   C) below price.
   D) constant.