

Economics 2106 – Principles of Microeconomics

Exam 2 – Feb 28, 2002

Professor Robert Collins

- 1) The price elasticity of demand measures
 - A) the responsiveness of quantity demanded to a change in price.
 - B) the responsiveness of price to a change in quantity demanded.
 - C) the change in quantity demanded due to a change in price.
 - D) the change in price due to a change in quantity demanded.

- 2) A 3 percent increase in the price of ties leads to a 3 percent decrease in the quantity demanded of ties. The price elasticity of demand is
 - A) 3.
 - B) 0.3.
 - C) 1.0
 - D) 0.01.

- 3) Price elasticities are calculated for four commodities, and the numbers are: 0.009; 1.0; 3.3; and 4.1. Which indicates the most responsive situation?
 - A) 0.009
 - B) 1.0
 - C) 3.3
 - D) 4.1

- 4) The less sensitive people are to a change in price, the
 - A) smaller a change in price must be to induce a certain change in quantity demanded.
 - B) greater the price elasticity of demand.
 - C) smaller the price elasticity of demand.
 - D) closer the price elasticity of demand is to one.

- 5) At a price of \$10, quantity demanded is 30 units while at a price of \$11, quantity demanded is 24 units. What is the price elasticity of demand?
 - A) 0.5
 - B) 0.43
 - C) 2.33
 - D) 6.0

- 6) To say that demand is inelastic means that
 - A) people don't like the good very much.
 - B) people are not very responsive to price changes.
 - C) relatively small changes in price lead to relatively large changes in quantity demanded.
 - D) relatively small changes in quantity demanded lead to relatively small changes in price.

- 7) If demand is unit elastic, then
 - A) a ten percent increase in price leads to a one percent decrease in quantity demanded.
 - B) the change in quantity demanded equals the change in price.
 - C) a two percent increase in price leads to a two percent decrease in quantity demanded.
 - D) an increase in price of any amount leads to quantity demanded falling to zero.

- 8) A firm believes it can increase its profits if it increases its revenues. If the price elasticity of demand is 0.88, the firm should
- A) increase its price.
 - B) decrease its price.
 - C) change price by 88 percent.
 - D) leave price unchanged.
- 9) At the midpoint on a straight-lined demand curve, demand is
- A) elastic.
 - B) inelastic.
 - C) unit elastic.
 - D) zero.
- 10) If demand is perfectly elastic everywhere along the demand curve, then
- A) people must be irrational.
 - B) the demand curve is vertical.
 - C) the demand curve is a rectangular hyperbola.
 - D) the demand curve is horizontal.
- 11) Other things equal, demand is more elastic the
- A) less expensive the good.
 - B) shorter the time period for adjustment.
 - C) larger the percentage of a total budget that a family spends on the good.
 - D) more unique the good is.
- 12) The cross elasticity of demand is
- A) the percentage change in the quantity demanded of one good divided by the percentage change in price of another good.
 - B) the percentage change in the price of one good divided by the percentage change of quantity demanded of another good.
 - C) the percentage change in the quantity demanded of one good divided by the percentage change in the quantity demanded of another good.
 - D) the percentage change in the price of one good divided by the percentage change in the price of another good.
- 13) The income elasticity of demand
- A) is positive only.
 - B) is negative only.
 - C) must lie between -1 and +1.
 - D) can be positive, negative, or zero.
- 14) In economics, another term for satisfaction is
- A) income elasticity.
 - B) price elasticity.
 - C) utility.
 - D) marginal productivity.

- 15) If a dinner guest were serious when claiming that he just could not get enough of your lasagna and that the more he ate the more he wanted, you would conclude that for him the marginal utility of lasagna was
- A) increasing.
 - B) decreasing.
 - C) zero.
 - D) constant.
- 16) If someone complains that she doesn't feel very well because she ate too much pizza, we would conclude that the marginal utility of the last piece of pizza eaten was
- A) positive.
 - B) zero.
 - C) very large.
 - D) negative.
- 17) If marginal utility is positive but decreasing, total utility is
- A) decreasing.
 - B) negative.
 - C) increasing.
 - D) constant.
- 18) The consumer maximizes personal satisfaction when
- A) $MU_a/P_a = P_b/MU_b$
 - B) $P_a/MU_a = P_b/MU_b$
 - C) $MU_a/P_a = MU_b/P_b$
 - D) $MU_a/MU_b = P_a/P_b$
- 19) If total utility is decreasing, then marginal utility is
- A) negative.
 - B) positive.
 - C) zero.
 - D) increasing.
- 20) When the marginal utility per dollar of good x exceeds the marginal utility per dollar of good y,
- A) the consumer should consume more x.
 - B) the consumer is consuming too much x.
 - C) good y must have a negative marginal utility.
 - D) the consumer is in an optimal situation if the price of x exceeds the price of y.
- 21) Consumer Choice or Utility Analysis is the analysis of
- A) the formation of tastes and preferences.
 - B) the differences of tastes and preferences across individuals.
 - C) the consumption decisions of people based on utility maximization.
 - D) how consumers determine the utility they receive from consumption.
- 22) Marginal utility is
- A) the utility received from consuming one unit of a good.
 - B) the change in total utility due to a one unit change in the quantity of a good consumed.
 - C) the total utility received from consuming a certain quantity of a good divided by the quantity
 - D) the utility received by the last consumer of a good.

- 23) A shareholder in a corporation**
A) may not sell his or her share of ownership in the business without the business dissolving.
B) can earn interest, but not dividends, from the profits of the business.
C) is a part owner of the business.
D) is personally liable for the debts of the corporation.
- 24) Which of the following is NOT a characteristic of a corporation?**
A) limited liability for shareholders
B) double taxation
C) separation of ownership problems
D) limited ability to raise capital funds
- 25) The main advantage of a corporate form of organization is that**
A) shareholders have limited liability.
B) shareholders have unlimited liability.
C) shareholders are not subject to double taxation.
D) all corporate profits must be distributed as dividends.
- 26) A proprietorship is**
A) two or more individuals in business together.
B) a corporation that is taxed like an individual.
C) a business owned by one individual who makes all of the decisions.
D) a government-owned franchise.
- 27) Disadvantages of proprietorships include**
A) limited liability for the owner.
B) double taxation of business profits.
C) the fact that the proprietorship can continue even after the owner dies.
D) the fact that the proprietor is solely responsible for all the firm's debts.
- 28) In a partnership, debts accumulated by one partner**
A) are the responsibility of that partner only.
B) are the responsibility of the other partners as well.
C) are the responsibility of all the employees of the partnership, regardless of whether those employees are partners.
D) are the responsibility of the other partners only up to the amount each partner initially invested in the partnership.
- 29) A legal concept whereby the personal assets of the owner of a firm may be used to pay off the firm's debts is known as the concept of**
A) adverse selection.
B) efficient markets.
C) unlimited liability.
D) dividend preference.

30) Suppose that you open your own business and receive an accounting profit of \$30,000 per year. When you started your business, you left a job that paid you a \$25,000 salary annually. Also, suppose that you invested \$70,000 of your own money to start up your business. If the normal rate of return on capital is 12 percent, your economic profit is

- A) \$66,400.
- B) -\$3,400.
- C) \$6,600.
- D) -\$8,400.

31) A basic tenet of the theory of the firm is that the firm's primary objective is to

- A) stay out of debt.
- B) produce a given level of output at a specified cost.
- C) maximize profits.
- D) operate for the benefit of society.

32) Economic profits are equal to

- A) total revenues minus total fixed costs.
- B) total revenues, after tax, minus cost of goods sold.
- C) total economic revenues minus the implicit and explicit cost of all inputs.
- D) total revenues minus the opportunity cost of labor.

33) Economists generally define the short run as being

- A) that period of time in which at least one of the firm's inputs, usually plant size, is fixed.
- B) that period of time in which all inputs are variable.
- C) any period of time less than one year.
- D) any period of time less than six months.

34) Which of the following would NOT be a short-run decision for the firm?

- A) recall workers who were previously laid off
- B) have labor work two hours overtime each day in order to expand output
- C) build another wing on the plant in order to add a new assembly line
- D) place an order with a supplier for additional raw materials

Table 1

Input of Labor (# of workers in weeks)	Total Product (# of snowboards produced)
0	0
1	30
2	68
3	110
4	140
5	135

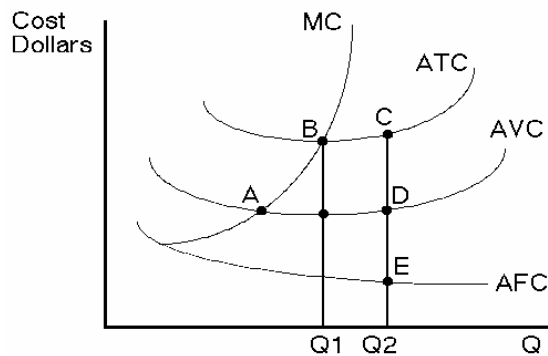
35) In Table 1, diminishing marginal returns occur after employing the

- A) first worker.
- B) second worker.
- C) third worker.
- D) fourth worker.

- 36) In Table 1, marginal product becomes negative after employing the
- A) second worker.
 - B) third worker.
 - C) fourth worker.
 - D) fifth worker.
- 37) In Table 1, the marginal product of the second worker is
- A) 68.
 - B) 98.
 - C) 38.
 - D) cannot be determined.
- 38) Which of the following statements about a firm's short-run variable costs is correct?
- A) They increase as the level of output decreases.
 - B) They typically include the cost of workers' wages.
 - C) They include the costs of plant and equipment.
 - D) They are always a greater expense than are fixed costs.
- 39) Average fixed costs will
- A) rise as output rises.
 - B) fall then rise as output rises.
 - C) rise then fall as output rises.
 - D) fall as output rises.
- 40) Which one of the following statements is FALSE?
- A) $TC = TFC + TVC$
 - B) $ATC = AFC + AVC$
 - C) $AFC = TFC$ divided by Q
 - D) $MC = TC$ divided by Q
- 41) In the short run, average total cost is
- A) higher than average variable cost.
 - B) equal to average variable cost.
 - C) less than average variable cost.
 - D) sometimes higher and sometimes lower than average variable cost.
- 42) Suppose that a firm incurs a total cost of \$974 when it produces 10 units and a total cost of \$1060 when it produces 11 units. It can be concluded that the marginal cost of producing the eleventh unit is
- A) \$86.
 - B) \$1,060.
 - C) \$2,034.
 - D) \$74.

- 43) When the marginal cost curve is above the average cost curve, the average cost curve is
- A) at a minimum.
 - B) rising.
 - C) falling.
 - D) horizontal.

- 44) If the marginal product of an input factor is falling, then
- A) average fixed cost is constant.
 - B) marginal cost is falling.
 - C) average total cost is constant.
 - D) marginal cost is rising.



- 45) In the figure above, the distance between points C and D is equal to
- A) average variable costs.
 - B) average total costs.
 - C) average fixed costs.
 - D) marginal costs.

- 46) Often single-owner proprietorships seem more profitable than they really are. The reason for this is that
- A) they receive special tax benefits compared to corporations.
 - B) they use different accounting procedures.
 - C) they often fail to consider the opportunity cost of the labor provided by the owner.
 - D) they are not allowed to deduct depreciation expense.

- 47) In the U.S. economy, which of the following is NOT a generally accepted economic function of government?
- A) providing public goods
 - B) distributing consumer goods
 - C) ensuring economywide stability
 - D) promoting competition in the marketplace

- 48) Public goods are unlikely to be provided by the private sector because
- A) the production of the good creates negative externalities.
 - B) no one can be excluded from the consumption of the good.
 - C) the consumption of the good creates negative externalities.
 - D) the exclusion principle does not apply to public goods.

- 49) The largest share of federal government tax receipts is derived from
- A) corporate income taxes.
 - B) excise taxes.
 - C) social insurance contributions.
 - D) individual income taxes.

- 50) A negative externality is a situation where
- A) there is a spillover of benefits
 - B) a cost associated with an economic activity is borne by a third party
 - C) a firm is paying in excess of the total costs of producing a good
 - D) none of these

1) Answer: A

2) Answer: C

3) Answer: D

4) Answer: C

5) Answer: C

6) Answer: B

7) Answer: C

8) Answer: A

9) Answer: C

10) Answer: D

11) Answer: C

12) Answer: A

13) Answer: D

14) Answer: C

15) Answer: A

16) Answer: D

17) Answer: C

18) Answer: C

19) Answer: A

20) Answer: A

21) Answer: C

22) Answer: B

23) Answer: C

24) Answer: D

25) Answer: A

26) Answer: C

27) Answer: D

28) Answer: B

29) Answer: C

30) Answer: B

31) Answer: C

32) Answer: C

33) Answer: A

34) Answer: C

35) Answer: C

36) Answer: C

37) Answer: C

38) Answer: B

39) Answer: D

40) Answer: D

41) Answer: A

42) Answer: A

43) Answer: B

44) Answer: D

45) Answer: C

46) Answer: C

47) Answer: B

48) Answer: B

49) Answer: D

50) Answer: B