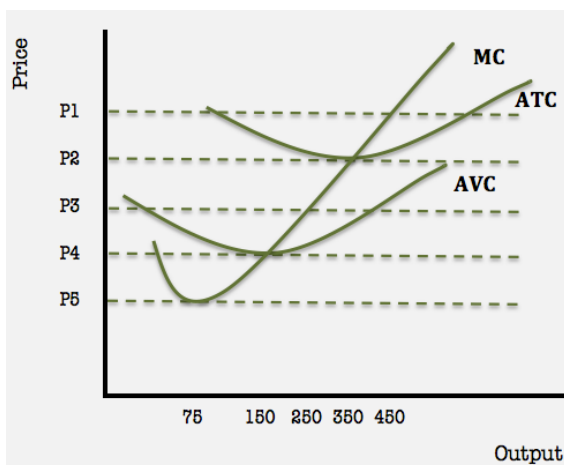


**Microeconomics
Practice Exam #1**

- 1 Which of the following factors of production would best be described as human capital?
(A) money used to start a business
(B) skills and training that help workers to complete their role in producing a finished product
(C) effort put forth by human workers
(D) currency provided to businesses through subsidies and other government programs
(E) tools used to produce a finished product
- 2 Which of the following would make it possible for a country to consume beyond its individual production possibilities curve?
(A) decreasing the unemployment rate
(B) producing only products for which they have an absolute advantage
(C) importing products from other countries at a relatively lower opportunity cost
(D) imposing a tariff on all imports
(E) producing more consumer goods rather than capital goods
- 3 Assume that pizza and stromboli are substitutes. Which of the following best describes the effect on the pizza market if the price of stromboli decreases?
(A) Demand for pizza will shift right
(B) Demand for pizza will shift left
(C) Supply for pizza will shift right
(D) Supply for pizza will shift left
(E) Both demand and supply for pizza will shift left
- 4 An effective price ceiling in the market for tea will most likely result in a/an
(A) decrease in demand for sugar, a complement for tea
(B) increase in demand for coffee, a substitute for tea
(C) surplus of tea
(D) shortage of tea
(E) leftward shift in the supply curve of good X
- 5 On a downward sloping, straight line demand curve, which of the following is always true?
(A) Price elasticity of demand is the same at all points along the curve
(B) Price elasticity increases as quantity increases
(C) Price elasticity decreases as quantity increases
(D) Demand is perfectly elastic at the midpoint of the demand curve
(E) Total revenue is higher when demand is elastic than when demand is inelastic
- 5 Skip this question. If your teacher gave this exam to you but he/she didn't purchase Jacob Clifford's Ultimate Review Packet then you
(A) should cheat since your teacher is a cheater
(B) must teach him/her about the free rider problem
(C) yell "my econ teacher doesn't understand econ!"
(D) must remind your teacher to do the right thing
(E) should do all of the above

- 6 If consuming one unit of a good yields 50 utils and consuming two units of the good yields 70 utils, which of the following must be true?
 (A) The marginal utility of the first unit is 20.
 (B) The marginal utility of the second unit is 50.
 (C) The marginal utility of the second unit is 20.
 (D) The total utility of consuming two units is 120.
 (E) The total utility of consuming one unit is greater than the total utility of consuming two units.
- 7 In the short run, diminishing marginal returns begin when
 (A) total product of labor begins to fall.
 (B) marginal product of labor becomes negative.
 (C) marginal revenue begins to fall.
 (D) the average product of labor begins to fall.
 (E) marginal product of labor begins to fall.



- 8 According to the graph above, what price will this perfectly competitive firm charge in the long run?
 (A) P1
 (B) P2
 (C) P3
 (D) P4
 (E) P5

- 9 Economic profit can be calculated as accounting profit plus
 (A) Implicit costs
 (B) Explicit costs
 (C) Total costs
 (D) Fixed costs
 (E) Variable costs
- 10 If a perfectly competitive firm produces at an output level where price is greater than both marginal cost and average variable cost, in order to maximize profit in the short run, the firm should
 (A) shut down production
 (B) produce more
 (C) produce less
 (D) lower price
 (E) change nothing, they are already maximizing economic profit
- 11 Governments often allow some natural monopolies to exist without competition because
 (A) unregulated natural monopolies are allocatively efficient.
 (B) unregulated natural monopolies are productively efficient.
 (C) natural monopolies cannot earn economic profit unless subsidized by the government.
 (D) natural monopolies experience economies of scale at the allocatively efficient output.
 (E) natural monopolies operate under the protection of patents issued by the government.

- 12 Monopolistically competitive firms are usually less efficient than perfectly competitive firms because monopolistically competitive firms
 (A) have a lower price than competitive industries.
 (B) have a higher quantity than competitive industries.
 (C) produce unique products with no close substitutes.
 (D) produce where marginal costs does not equal marginal revenue.
 (E) produce where price is greater than marginal cost.
- 13 A perfectly competitive firm hires three workers in a perfectly competitive labor market. The daily marginal products of the three workers are listed below.

Number of Workers	Marginal Product
1	200
2	150
3	50

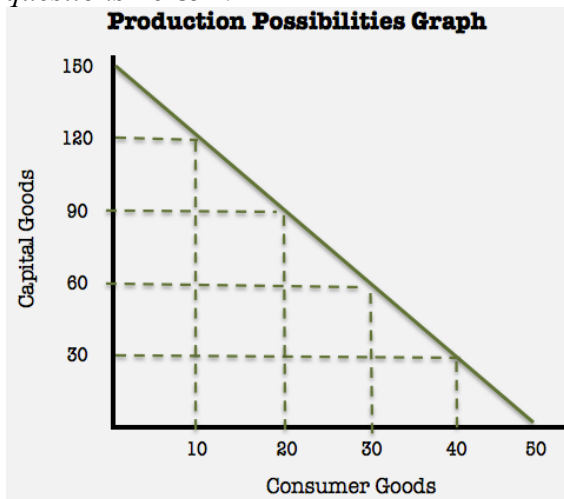
- Which of the following is most likely true?
 (A) Worker 3 will receive the lowest wage
 (B) All workers will receive a wage based on their individual marginal revenue product
 (C) Each worker will receive the same wage, equal to the marginal revenue product of the last worker
 (D) Each worker will receive the same wage, equal to the marginal revenue product of the first worker
 (E) Each worker will receive the same wage, based on the average product of all workers hired

- 14 Assume the government establishes a new binding minimum wage. For a typical firm, which of the following will happen the marginal resource cost (MRC) and the marginal revenue product (MRP) of the last worker hired.

	<u>MRC</u>	<u>MRP</u>
(A)	Increase	Increase
(B)	Increase	Decrease
(C)	No Change	Increase
(D)	Decrease	Increase
(E)	Decrease	Decrease

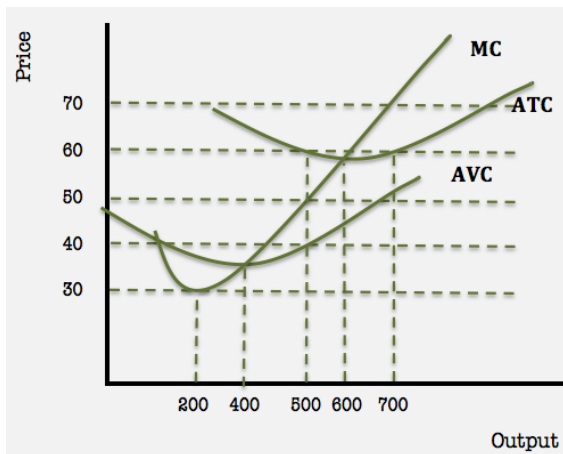
- 15 When consumption of a good generates a positive externality and government takes action to fix the problem created by this externality, what problem is the government most likely attempting to fix?
 (A) The product is overproduced, given the social costs and benefits
 (B) The subsidy for production of this good is too high
 (C) Society wants government to eliminate the spillover costs
 (D) Consumption of this good widens the income inequality gap
 (E) The product is underproduced, given the social costs and benefits

Use the following graph to answer questions 16 & 17



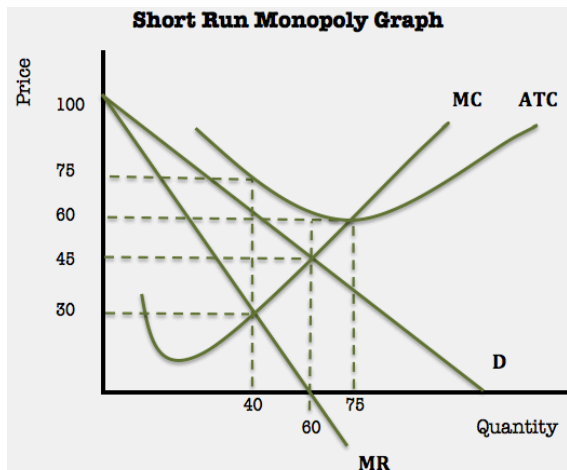
- 16 The graph above illustrates the production possibilities for Country X. Assume Country X is currently producing 30 capital goods and 40 consumer goods. Which of the following combinations could Country X produce that would most likely accelerate economic growth?
- 0 capital goods; 50 consumer goods
 - 90 capital goods; 20 consumer goods
 - 150 capital goods; 50 consumer goods
 - 60 capital goods; 20 consumer goods
 - None of the above combinations would promote economic growth, as their current combination already maximizes growth
- 17 Using the same graph above, assuming Country X is producing efficiently, calculate their opportunity cost to increase production of consumer goods from 20 units to 30 units.
- 3 capital goods
 - 10 capital goods
 - 30 capital goods
 - 10 consumer goods
 - None, when producing efficiently, there is no opportunity cost
- 18 In the competitive market for jelly beans (a normal good), all of the following are true EXCEPT
- A decrease in consumer income would shift demand to the left
 - An increase in variable costs of producing jelly beans would shift supply to the left
 - A decrease in the price of a substitute good would shift demand to the left
 - An increase in the number of buyers would shift demand to the right
 - A decrease in the price of jelly beans would shift demand to the right
- 19 The quantity of acrylic paint supplied decreased from 500 tons per week to 400 tons per week when the price of acrylic paint decreased from \$20 per ton to \$10 per ton. The price elasticity of supply for acrylic paint over this price range is
- perfectly elastic
 - perfectly inelastic
 - relatively inelastic
 - relatively elastic
 - unit elastic
- 20 The difference between the price at which a producer would be willing to sell a candy bar and the actual market price that she receives from the sale is best known as
- marginal utility
 - marginal cost
 - ability to pay
 - consumer surplus
 - producer surplus

- 21 Johnny is currently spending his entire weekly snack budget on 5 bags of candy and 4 juice boxes. At his current level of consumption, Johnny's marginal utility for candy is 5 utils and his marginal utility for juice boxes is 10 utils. In order to maximize his total utility, Johnny should
- (A) maintain his current level of consumption of candy and juice boxes regardless of the prices
 - (B) consume more candy and fewer juice boxes regardless of the prices
 - (C) consume more juice boxes and fewer candy regardless of the prices
 - (D) maintain his current level of consumption if the price of candy is \$2 and the price of a juice box is \$1
 - (E) maintain his current level of consumption if the price of candy is \$1 and the price of a juice box is \$2



- 22 Using the graph above, if this perfectly competitive firm maintains marginal revenue of \$50 per unit, which of the following accurately describes the firm's profit/loss and output in the short run?
- (A) Profit; output of less than 550
 - (B) Profit; output of more than 550
 - (C) Loss; output of less than 550
 - (D) Loss; output of more than 550
 - (E) Break even; output of more than 550

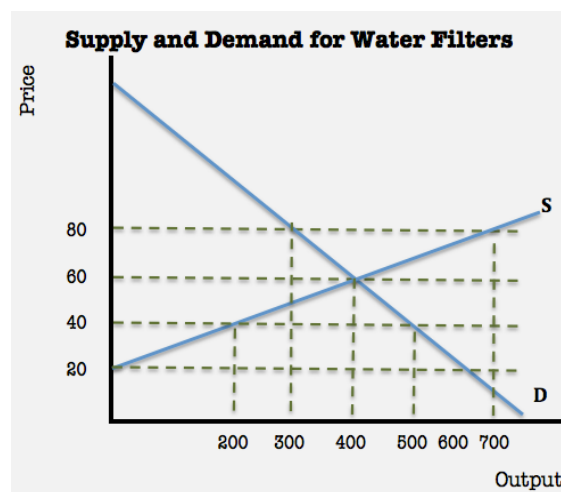
- 23 A firm experiencing diseconomies of scale will have
- (A) a long-run supply curve that is horizontal.
 - (B) a long-run marginal cost curve that decreases as output increases.
 - (C) a long-run total cost that decreases as output increases.
 - (D) a long-run average total cost that increases as output increases.
 - (E) a long-run average total cost that decreases as output increases.
- 24 Which of the following best describes a perfectly competitive market?
- (A) a market structure with a large number of interdependent large firms selling identical products
 - (B) a market structure with dozens of small firms offering a differentiated product with easy entry into the market
 - (C) a market that is productively efficient, but not allocatively efficient
 - (D) a market that has high barriers to entry
 - (E) a market structure where individual firms have no control over the price that they charge



- 25 The graph above illustrates the costs and revenues for an unregulated monopoly producing in the short run. What price and quantity combination will this firm choose to profit maximize or loss minimize?
- (A) $P = 75$; $Q = 40$
 (B) $P = 60$; $Q = 40$
 (C) $P = 45$; $Q = 60$
 (D) $P = 60$; $Q = 75$
 (E) $P = 30$; $Q = 40$
- 26 Which of the following best describes the marginal revenue curve as a single-price monopolist increases its output in the short run?
- (A) decreasing at first, then increasing
 (B) increasing at first, then decreasing
 (C) horizontal and equal to the market price
 (D) decreasing and equal to the monopolist's demand curve
 (E) decreasing and below the monopolist's demand curve
- 27 Which of the following is not true of a monopolistically competitive firm in long-run equilibrium?
- (A) Price equals average total cost and marginal cost
 (B) Price equals average total cost but is greater than marginal cost.
 (C) Marginal cost equals marginal revenue
 (D) The firm uses product differentiation.
 (E) The firm earns a normal profit
- 28 In a perfectly competitive labor market, imposing a binding minimum wage will bring about what change(s) on the demand and supply graph?
- (A) increase in wage, decrease in quantity of workers hired
 (B) increase in wage, increase in quantity of workers hired
 (C) decrease in wage, decrease in quantity of workers hired
 (D) decrease in wage, increase in quantity of workers hired
 (E) none of the above, imposing a binding minimum wage will have no effect on wage or the quantity of workers hired
- 29 A firm hires two inputs, labor and capital, in perfectly competitive resource markets. The firm sells its product in a perfectly competitive market for \$10 per unit. The marginal cost to hire each unit of capital is \$150 per day, and the marginal product of labor is 10. Assuming the firm hires the least-cost combination of labor and capital, the firm's marginal product of capital and the daily wage per worker must be equal to which of the following?
- (A) Marginal product of capital must be 10 and the daily wage for labor must be \$50.
 (B) Marginal product of capital must be 10 and the daily wage for labor must be \$100.
 (C) Marginal product of capital must be 15 and the daily wage for labor must be \$50.
 (D) Marginal product of capital must be 15 and the daily wage for labor must be \$75.
 (E) Marginal product of capital must be 15 and the daily wage for labor must be \$100.

- 30 Which of the following is the best example of a pure public good?
- (A) A public fishing pond that only charges a fee to out-of-state residents
 - (B) A fire station that provides protection to the surrounding community
 - (C) Satellite television service that charges \$49 per month
 - (D) An old town firehouse that has been converted into a successful restaurant
 - (E) Music downloads that cost \$0.99 cents each
- 31 Which of the following is a fundamental aspect of the free market economics system?
- (A) Most economic decisions are based upon the ideas of both Adam Smith and Karl Marx.
 - (B) Public control of the means of production.
 - (C) The protection of private property rights.
 - (D) Economic decisions made to preserve traditions and the status quo.
 - (E) Central planners set the price of resources, but the price of products are set by unregulated markets.
- 32 In 2014, 13 billion bushels of corn were harvested and sold for \$3.70 per bushel. The next year, 13 billion bushels of corn were harvested and sold at \$3.50 per bushel. Which of the following changes in supply and demand could have caused this change?
- (A) Supply decreased while demand decreased
 - (B) Supply increased while demand decreased
 - (C) Supply decreased while demand increased
 - (D) Supply increased while demand increased
 - (E) Supply increased while demand did not change

- 33 An early frost destroys 20% of the coffee bean crop. If the supply and demand for coffee beans are both relatively inelastic, and the frost does not impact the quality of the coffee beans that make it to market, which of the following will most likely occur to the equilibrium price and quantity of coffee beans?
- (A) Price and quantity will both increase
 - (B) Price and quantity will both decrease
 - (C) Price will increase, quantity will decrease
 - (D) Price will decrease, quantity will increase
 - (E) Price will not change, quantity will decrease



- 34 The graph above shows the supply and demand for water filters. If the government imposes a price floor at \$40 per unit, the result will be
- (A) a surplus of 300 units
 - (B) a shortage of 300 units
 - (C) a surplus of 400 units
 - (D) a shortage of 400 units
 - (E) None of the above

- 35 Which of the following is true if the government enacts a per-unit tax on a product with relatively inelastic demand and relatively elastic supply?
 (A) The price that consumers pay will decrease.
 (B) The demand for the product will decrease.
 (C) The tax burden will fall equally on both consumers and producers.
 (D) The tax burden will fall more on consumers than on producers.
 (E) The consumer surplus will increase.
- 36 Herman spends his entire income on only two goods: bagels and juice. Currently, his MU for bagels is 12, and his MU for juice is 6. If the price for each bagel is \$3, and the price for each juice is \$1, this Herman should
 (A) buy more bagels and more juice
 (B) buy less bagels and less juice
 (C) buy more bagels and less juice
 (D) buy less bagels and more juice
 (E) none of the above, Herman is already maximizing his utility
- 37 If none of a firm's costs are fixed, which of the following must be true as its output increases?
 (A) Average total cost is increasing
 (B) Marginal cost equals Average total cost
 (C) The firm is experiencing constant returns to scale
 (D) Average total cost equals average variable cost
 (E) Marginal product of labor is decreasing
- 38 Which of the following accurately differentiates allocative efficiency and productive efficiency on a firm graph?
 (A) Allocative efficiency is where $P = \text{minimum average total cost}$; Productive efficiency is where $P = MC$
 (B) Allocative efficiency is where $MC = MR$; Productive efficiency is where $P = \text{minimum average total cost}$
 (C) Allocative efficiency is where $P = MC$; Productive efficiency is where $P = \text{minimum average total cost}$
 (D) Allocative efficiency is where $MR = 0$; Productive efficiency is where $MC = MR$
 (E) Allocative efficiency is where $P = MC$; Productive efficiency is where economic losses are minimized
- 39 Assume peanut farmers hire their workers in a perfectly competitive labor market and sell their product in a perfectly competitive product market. A decrease in the demand for peanuts will result in which of the following changes in the labor market?
 (A) neither supply nor demand will shift, as labor and products are unrelated in this case.
 (B) The supply curve for labor will shift to the right.
 (C) The demand curve for labor will shift to the right.
 (D) The supply curve for labor will shift to the left.
 (E) The demand curve for labor will shift to the left.
- 40 A firm must be able to separate consumers into different groups based on their elasticity of demand in order to
 (A) product differentiate
 (B) profit maximize
 (C) price discriminate
 (D) experience economies of scale
 (E) maximize consumer surplus

- 41 Oligopolistic firms all share this characteristic, which is not typically found in any other market structure.
- (A) They spend more than half their revenue on highly competitive advertising
 - (B) They differentiate their products
 - (C) They price discriminate
 - (D) They produce identical products
 - (E) They are mutually interdependent

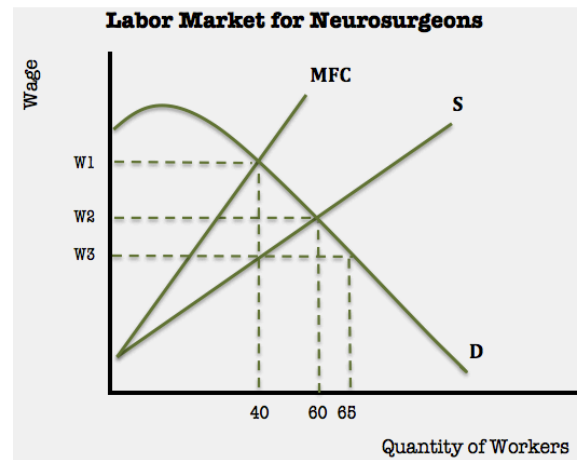
42

All of the following are true statements about market structures EXCEPT

- (A) The demand curve for a perfectly competitive firm is perfectly elastic
- (B) Monopolistically competitive firms earn a normal profit in the long run
- (C) Oligopolistic firms are more interdependent than monopolistically competitive firms
- (D) Competitive firms are more likely to experience economies of scale than oligopolistic firms
- (E) Perfectly competitive firms are always productively efficient in the long run

Quantity of Labor	Quantity of Output
0	0
1	20
2	50
3	70
4	80
5	85
6	88

- 43 Assume this firm hires all workers for a wage of \$50 per day, and can sell as many units as it produces at the market price of \$10 per unit. Calculate the profit-maximizing quantity of labor and the Marginal Revenue Product (MRP) for the last worker hired.
- (A) 4 workers; \$100
 - (B) 4 workers; \$10
 - (C) 5 workers; \$100
 - (D) 5 workers; \$50
 - (E) 5 workers; \$10



- 44 Assume that a Regional Hospital Network is the only firm hiring neurosurgeons. Using the graph provided, identify the wage and quantity of neurosurgeons hired by this profit maximizing firm.
- (A) W1; 40
 - (B) W2; 60
 - (C) W3; 65
 - (D) W2; 40
 - (E) W3; 40

- 45 Assume that all individuals benefit from flu shots, regardless of whether they purchase a flu shot themselves. Which of the following best explains why the number of people who choose to get a flu shot is not the same as the socially optimal quantity of vaccinations.
- (A) Vaccinations generate negative externalities.
 (B) Vaccinations are non-excludable.
 (C) Vaccinations result in diseconomies of scale.
 (D) The marginal cost of a vaccination is zero.
 (E) Vaccinations generate positive externalities.
- 46 All of the following are true about an country's production possibilities curve EXCEPT
- (A) If it is bowed out (concave to the origin), it is experiencing increasing opportunity costs of production
 (B) An increase in unemployment causes the curve to shift inward towards the origin.
 (C) It shows the alternative combinations of goods that can be produced given a country's scarce resources
 (D) If it is a straight line, the country is experiencing constant opportunity costs of production
 (E) Producing a quantity on the production possibilities curve is always productively efficient
- 47 Sports cars are a normal good. Which of the following contribute to the downward sloping demand for sports cars?
- I. Law of diminishing marginal utility
 II. Substitution effect
 III. Income effect
 IV. Allocative efficiency
- (A) I and II only
 (B) II and III only
 (C) I and III only
 (D) I, II and III only
 (E) I, II, III and IV
- 48 Historically, coal miners had a very high risk of developing various lung diseases, due in part to lack of ventilation. Engineering advancements allowed better ventilation in mines, eliminating some of this risk. Which is the most likely impact of these engineering advancements upon the supply and demand for labor in the mining industry?
- (A) Demand curve will shift left, supply curve will shift right
 (B) Demand curve will shift left, supply curve will shift left
 (C) Demand curve will shift right, supply curve will shift right
 (D) Demand curve will not shift, supply curve will shift left
 (E) Demand curve will not shift, supply curve will shift right
- 49 If the demand for health care is very inelastic, an increase in the price of health care will
- (A) increase the total revenue of health care providers
 (B) decrease the total revenue of health care providers
 (C) decrease the total consumer expenditures on health care
 (D) cause the demand for health care to increase
 (E) have no effect on the total revenue of health care providers
- 50 If only one supplier in a perfectly competitive market received a per-unit subsidy this year, how will this subsidy impact the firm's price and output in the short run?
- (A) price will increase; output will increase
 (B) price will not change; output will increase
 (C) price will decrease; output will increase
 (D) price will not change; output will decrease
 (E) price will decrease; output will decrease

- 51 Why does the marginal cost of producing cookies eventually increase in the short run?
 (A) economies of scale
 (B) diseconomies of scale
 (C) increasing fixed costs
 (D) diminishing marginal product
 (E) increasing marginal product
- 52 Which of the following is always true about the relationship between a firm's ATC and MC curves in the short run?
 (A) the ATC curve intersects the MC curve at the minimum point of the MC curve
 (B) the MC curve intersects the ATC curve at the minimum point of the ATC curve
 (C) the MC curve intersects the ATC curve at the maximum point of the ATC curve
 (D) ATC and MC are always equal
 (E) ATC and MC are never equal
- 53 Assuming all of a firm's cost are explicit, the output level where accounting profit is maximized will always be where
 (A) Total revenue equals total implicit costs
 (B) price equals average total cost
 (C) price equals marginal cost
 (D) the difference between marginal revenue and marginal cost is maximized
 (E) marginal cost equals marginal revenue
- 54 Which of the following is least likely to increase economic profit in any given market?
 (A) Effective price discrimination
 (B) A few firms consolidating market shares
 (C) A government subsidy
 (D) An effective price floor
 (E) Low barriers to entry
- 55 Which of the following will most likely occur if a perfectly competitive market is replaced by a single-price monopolist?
 (A) The deadweight loss will increase
 (B) Profit-maximizing output will increase
 (C) Price will decrease
 (D) Economic profit will decrease
 (E) The firm's total revenue will increase

		SpeedCo	
		High	Low
Fast Track	High	(70, 60)	(20, 100)
	Low	(100, 20)	(30, 30)

- 56 SpeedCo and Fast Track are the only two companies providing local 24-hour delivery service. If these firms do not collude and both follow their dominant strategy, according to the payoff matrix above, how much profit will each company earn?
 (A) Fast Track: 70, SpeedCo: 60
 (B) Fast Track: 100, SpeedCo: 20
 (C) Fast Track: 20, SpeedCo: 100
 (D) Fast Track: 30, SpeedCo: 30
 (E) Fast Track: 60, SpeedCo: 70
- 57 A monopolistically competitive firm is currently in long-run equilibrium. If the output of the firm is 50 units and the price the firm receives for each product is \$10, what is the total cost for this firm?
 (A) \$5
 (B) \$10
 (C) \$50
 (D) \$500
 (E) There is not enough information given to determine average total cost.

- 58 Floor-Mart is one of many firms hiring workers in a perfectly competitive labor market. If Floor-Mart's demand for labor increases, how will this impact the number of workers hired by Floor-Mart and the equilibrium wage in this labor market.
- (A) The firm will hire fewer workers and the equilibrium wage will increase.
 - (B) The firm will hire the same number of workers and the equilibrium wage will increase.
 - (C) The firm will hire the same number of workers and the equilibrium wage will decrease.
 - (D) The firm will hire more workers and the equilibrium wage will increase.
 - (E) The firm will hire more workers and the equilibrium wage will remain the same.
- 59 Assume the marginal social cost of the last unit of Iocane Powder provided is greater than the marginal social benefit. Which of the following can be used to achieve a more efficient outcome in the market for Iocane Powder?
- (A) A per-unit subsidy for Iocane Powder
 - (B) A lump-sum subsidy for Iocane Powder
 - (C) A per-unit tax for Iocane Powder
 - (D) A lump-sum tax for Iocane Powder
 - (E) Perfect price discrimination
- 60 How would making a country's income tax more progressive affect the income inequality of its citizens?
- (A) It would increase income inequality
 - (B) It would decrease income inequality
 - (C) It would not affect income inequality
 - (D) It would increase the wage difference between men and women
 - (E) It would not affect the wage difference between men and women