

**Microeconomics
Practice Exam #2**

- 1 On Friday evenings, Spencer usually works a 5-hour shift at the Burger Shack, earning \$8 per hour. Spencer's friend asks him if he would like to go to the baseball game this Friday night. If Spencer chooses not to work this Friday and instead purchases a ticket to the game for \$30, what is Spencer's opportunity cost of this decision?
- (A) \$8
(B) \$30
(C) \$38
(D) \$40
(E) \$70

	Mow Lawns	Pull Weeds
Noah	60 minutes	30 minutes
Sydney	90 minutes	60 minutes

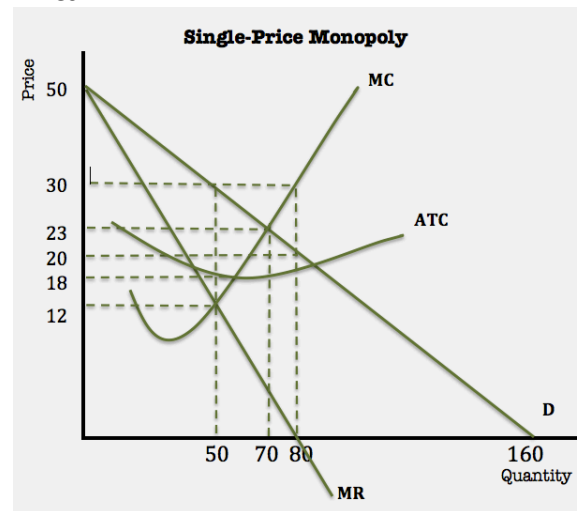
- 2 The table above provides the number of minutes it takes for Noah and Sydney to mow lawns and to pull weeds. Assuming they choose their jobs based on the principle of comparative advantage, which of the following should occur?
- (A) Noah should mow lawns while Sydney pulls weeds.
(B) Sydney should mow lawns while Noah pulls weeds.
(C) Both Noah and Sydney should pull weeds, and they should hire an additional worker to mow lawns.
(D) Noah should split his time equally between both jobs.
(E) Sydney should split his time equally between both jobs.

- 3 Assume tomatoes are an input used in traditional sauce. If the price of tomatoes decreases, and at the same time, there is an increase in the price of alfredo sauce — a substitute for traditional sauce, which of the following will definitely result from the combination of these factors?
- (A) The equilibrium quantity of traditional sauce will increase.
(B) The equilibrium quantity of traditional sauce will decrease.
(C) The equilibrium quantity of traditional sauce will be unaffected.
(D) The equilibrium price of traditional sauce will increase.
(E) The equilibrium price of traditional sauce will decrease.
- 4 A local coffee shop increases the price of a coffee from \$3.25 to \$3.50. If the demand for coffee is relatively price inelastic, how will this change most likely affect the amount of coffee purchased and the coffee shop's total revenue?
- (A) The amount purchased remains the same; revenue increases
(B) The amount purchased increases; revenue increases
(C) The amount purchased decreases; revenue decreases
(D) The amount purchased decreases; revenue increases
(E) The amount purchased decreases; revenue remain the same
- 5 The cross-price elasticity of demand for Good X and Good Y is equal to +1.0. What does this indicate about the relationship between Good X and Good Y?
- (A) Good X and Good Y are unit elastic
(B) Good X and Good Y are complements
(C) Good X and Good Y are substitutes
(D) Good X and Good Y are both normal goods
(E) Good X and Good Y are both inferior goods

- 6 The law of diminishing marginal utility is most commonly used to help explain the
 (A) law of demand
 (B) law of supply
 (C) shape of the production possibilities curve
 (D) law of increasing opportunity costs
 (E) horizontal demand curve for a perfectly competitive firm
- 7 If the government levies a lump-sum tax on cell phone manufacturers, which of the following will occur in the short run?
 (A) Marginal cost will increase.
 (B) Quantity of cell phones produced will increase.
 (C) Quantity of cell phones produced will decrease.
 (D) Average total cost will increase.
 (E) Average variable cost will increase.
- 8 Which of the following is always true for production in the short run, but never true in the long run?
 (A) Average total costs are increasing
 (B) Marginal costs are constant.
 (C) Decisions made only affect production for less than one year
 (D) None of the factors of production are variable
 (E) At least one factor of production is fixed.
- 9 Which of the following is true for a profit maximizing firm in any type of market structure?
 (A) total revenue equals total cost
 (B) Price is greater than marginal cost
 (C) Price is equal to marginal cost
 (D) total revenue is greater than marginal revenue
 (E) marginal revenue equals marginal cost

- 10 Compared to a monopoly with identical demand and cost curves, a perfectly competitive firm will
 (A) charge a lower price and produce a higher output
 (B) charge the same price and produce a higher output
 (C) charge a lower price and produce the same output
 (D) charge a higher price and produce a lower output
 (E) charge a higher price and produce the same output

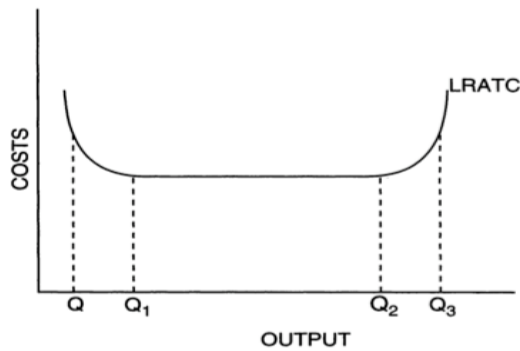
Use the following graph to answer questions 11 & 12



- 11 Above is a graph illustrating the costs and revenues for an unregulated, single-price monopoly. Assuming this monopoly is profit-maximizing, calculate the area of total consumer surplus
 (A) \$25
 (B) \$180
 (C) \$300
 (D) \$500
 (E) \$1,500

- 12 At what price (P) and quantity (Q) combination would this monopolist maximize total revenue?
 (A) P = \$30; Q = 50
 (B) P = \$23; Q = 70
 (C) P = \$20; Q = 80
 (D) P = \$0; Q = 160
 (E) P = \$0; Q = 0
- 13 Which of the following best describes the supply and demand curves for a firm hiring labor in a perfectly competitive labor market?
 (A) Firm's demand curve for labor is horizontal, firm's supply curve for labor is upward sloping
 (B) Firm's demand curve for labor is horizontal, firm's supply curve for labor is horizontal
 (C) Firm's demand curve for labor is horizontal, firm's supply curve for labor is downward sloping
 (D) Firm's demand curve for labor is downward sloping, firm's supply curve for labor is upward sloping
 (E) Firm's demand curve for labor is downward sloping, firm's supply curve for labor is horizontal
- 14 A firm produces tennis shoes, hiring labor from a perfectly competitive labor market. This firm will profit maximize if it continues to hire workers until the marginal factor cost of labor is equal to the
 (A) marginal factor cost of capital
 (B) marginal revenue product of labor
 (C) market demand for labor
 (D) price of the good that labor is producing
 (E) wage paid to each worker
- 15 Assuming national defense is a pure public good, which of the following is the best explanation for why it is impossible for the private sector to provide a sufficient quantity of national defense?
 (A) the marginal social benefit of national defense would equal the marginal social cost
 (B) national defense imposes a negative externality upon the public
 (C) the private sector could not pay for all the costs of national defense
 (D) the private sector cannot be trusted with providing national defense
 (E) the private sector could not exclude non-payers from enjoying the benefits of national defense
- 16 A country will most likely cause an outward shift in its production possibilities by
 (A) Increasing the price of product(s) for which it has a comparative advantage
 (B) Investing in the development of new technology
 (C) Producing more of its most expensive products
 (D) Reducing foreign trade and increasing taxes on businesses
 (E) Reducing its spending for developing human capital
- 17 The law of increasing opportunity costs directly explains the shape of which of the following curves?
 (A) The average fixed cost curve
 (B) The market demand curve
 (C) A concave production possibility curve
 (D) A straight-line production possibilities curve
 (E) The marginal revenue curve

- 18 If the price of baseball caps increases, which of the following will most likely occur in the market for baseball caps?
 (A) The demand for baseball caps will decrease
 (B) The supply of baseball caps will increase
 (C) The quantity supplied for baseball caps will increase
 (D) The demand will decrease and the supply will increase
 (E) There will be a shortage of baseball caps in the market
- 19 As the price of cinnamon increases by 10 percent, and as a result, the quantity demanded for spice X decreases by 5 percent. Based on this information, calculate the value of the cross price elasticity of demand coefficient and determine whether cinnamon and spice X are complements or substitutes.
 (A) 2.0; substitutes
 (B) -2.0; complements
 (C) 0.5; substitutes
 (D) -0.5; complements
 (E) -0.5; substitutes
- 20 Allocative efficiency always occurs when a firm produces a quantity where
 (A) price equals marginal cost
 (B) price exceeds average total cost
 (C) marginal revenue equals marginal cost
 (D) average revenue equals average total cost
 (E) average total cost is at its minimum
- 21 When the price of both pizza and tacos is zero, Mr. Box chooses to eat a taco. If Mr. Box has to pay, he chooses to eat pizza. Assuming Mr. Box is a rational consumer, which of the following must be true when Mr. Box has to pay?
 (A) the price of pizza is greater than the price of a taco
 (B) the price of a taco is greater than the price of pizza
 (C) the marginal utility of pizza equals the marginal utility of a taco
 (D) the marginal utility per dollar of a taco is greater than the marginal utility per dollar of pizza
 (E) the marginal utility of a taco equals zero
- 22 At 10 units of output, a firm's total fixed cost is \$60,000. If the firm's total cost is \$100,000, its average variable cost is equal to
 (A) \$160,000
 (B) \$40,000
 (C) \$6,000
 (D) \$4,000
 (E) \$0
- 23 Assume that soybeans are produced in a constant cost perfectly competitive market that is currently in long-run equilibrium. An increase in the number of consumers shifts demand for soybeans, but has no effect on supply. Which of the following best describes the effect of price in the short run and in the long run?
 (A) Price will increase in the short run; Price will increase in the long run.
 (B) Price will increase in the short run; Price will remain constant in the long run.
 (C) Price will decrease in the short run; Price will increase in the long run.
 (D) Price will decrease in the short run; Price will decrease in the long run.
 (E) Price will decrease in the short run; Price will remain constant in the long run.



- 24 According to this long-run average total cost curve, if this firm produces any quantity less than Q_1 , the firm will experience
- diseconomies of scale
 - economies of scale
 - constant returns to scale
 - increasing opportunity costs
 - productive efficiency
- 25 The profit-maximizing quantity for a monopolist that is unregulated will always be
- where marginal cost and the demand curve cross
 - where price equals marginal cost
 - where marginal revenue equals price
 - where marginal revenue equals zero
 - in the elastic region of the demand curve
- 26 A firm producing in monopolistic competition is not productively efficient in the long run because
- there are no barriers to entry
 - firms are mutually interdependent
 - the price is set above minimum ATC
 - long-run profits are usually positive
 - they experience diseconomies of scale
- 27 For both a perfectly competitive firm and a monopolistically competitive firm, all of the following statements are true in the long run, EXCEPT
- Total revenue = Total costs
 - Price = Average total cost
 - Marginal costs = Marginal revenue
 - Price = Average revenue
 - Price = Marginal costs
- 28 Assume the marginal product of capital is 50, and the marginal product of labor is 150. If the price to hire each unit of capital is \$50 per day, while the price to hire each unit of labor is \$100 per day, which of the following is true for a firm hiring all inputs from perfectly competitive markets?
- The firm should maintain the units of capital and labor it has hired, it is already producing at its least-cost combination of labor and capital.
 - The firm is currently maximizing profits.
 - The firm should hire more labor and less capital in order to decrease costs.
 - The firm should hire more capital and less labor in order to decrease costs.
 - None of the above
- 29 Assume that PCI is a firm that hires 100 workers in a perfectly competitive labor market to produce paper clips in its factory. The government raises minimum wage above PCI's current wage. How will this impact PCI's marginal factor cost for labor employed and the marginal revenue product of the last worker hired?
- Marginal factor cost will increase and the marginal revenue product will decrease.
 - Marginal factor cost will decrease and the marginal revenue product will decrease.
 - Marginal factor cost will decrease and the marginal revenue product will increase.
 - Marginal factor cost will increase and the marginal revenue product will increase.
 - Marginal factor cost will increase and the marginal revenue product will stay the same.

- 30 Free public radio is commonly described by economists as a public good because
- (A) The total revenue is equal to the total costs of operation
 - (B) It is both non-rival and non-excludable
 - (C) The opportunity cost to access a broadcast from a free public radio station is lower than that of a privately-owned radio station
 - (D) It provides benefits to millions of individuals
 - (E) It is funded primarily through charitable donations

Iota-ville		Omega-land	
Coal	Steel	Coal	Steel
0	50	0	30
3	40	2	24
6	30	4	18
9	20	6	12
12	10	8	6
15	0	10	0

- 31 The table above shows the production combinations for two different countries. If Omega-land is currently producing 6 units of coal and 12 units of steel, what is their opportunity cost for producing 6 more units of steel
- (A) 6 units of steel
 - (B) 6 units of coal
 - (C) 4 units of coal
 - (D) 2 units of coal
 - (E) 1 unit of coal
- 32 Which of the following best describes the law of supply?
- (A) When the supply for a good increases, the price will increase
 - (B) When the supply for a good increases, the price will decrease
 - (C) When the price of a good increases, its supply increases.
 - (D) When the price of a good increases, its quantity supplied increases.
 - (E) When the price of a good increases, its supply and demand will both decrease
- 33 All of the following would shift the supply curve for grapes in the short run EXCEPT
- (A) an increase in the wages paid to grape harvesters
 - (B) the elimination of per-unit subsidies provided for firm's producing grapes
 - (C) an increase in government regulations concerning grape production
 - (D) a strike by all vineyard workers
 - (E) an increase in all household incomes
- 34 Assume the demand for NZT is perfectly inelastic and the supply for NZT is relatively elastic. Which of the following would result from a decrease in supply?
- (A) Price will increase; Quantity will decrease
 - (B) Price will decrease; Quantity will increase
 - (C) Price will remain the same; Quantity will decrease
 - (D) Price will increase; Quantity will remain the same
 - (E) Price will decrease; Quantity will decrease
- 35 Of the following, which is the best example of consumer surplus?
- (A) An individual who spends less than he or she earns in a given year
 - (B) An individual who pays less for a pizza than he or she thinks it is worth
 - (C) An individual who pays more for a pizza than he or she thinks it is worth
 - (D) An individual who pays exactly what he or she thinks pizza is worth
 - (E) When quantity supplied is greater than quantity demanded in a market
- 36 When marginal revenue is equal to zero, total revenue must be
- (A) increasing
 - (B) decreasing
 - (C) at its minimum
 - (D) at its maximum
 - (E) equal to zero

Q	TC
0	\$15
1	\$35
2	\$50
3	\$60
4	\$64

The table above shows a firm's total cost (TC) of producing various units of output. What is the average variable cost of producing 3 units?

- (A) \$10
- (B) \$15
- (C) \$20
- (D) \$45
- (E) \$60

38 In a perfectly competitive product market, if both the quantity and price for a product decrease, which of the following most likely caused this change?

- (A) a decrease in demand
- (B) an increase in demand
- (C) a decrease in supply
- (D) an increase in supply
- (E) an increase in both demand and supply

39 If a firm's average total cost is above price at the loss-minimizing output, the firm should continue to produce in the short run as long as the

- (A) price is above the marginal cost.
- (B) price is above the average variable cost.
- (C) average total cost is above the marginal cost.
- (D) marginal cost is equal to the average variable cost.
- (E) firm is earning an accounting profit.

40 Assume that Denver Electric controls a monopoly over the supply of electricity in the surrounding area. Which of the following government actions would most likely decrease the deadweight loss due to the inefficiency of this monopoly?

- (A) Imposing a lump-sum tax on Denver Electric
- (B) Imposing a per-unit tax on Denver Electric
- (C) Granting a lump-sum subsidy on Denver Electric
- (D) Granting a per-unit subsidy to Denver Electric
- (E) Setting a binding price floor

		Cube-Mart	
		Ads	No Ads
Frozen Inc.	Ads	(300, 400)	(250, 300)
	No Ads	(200, 300)	(500, 250)

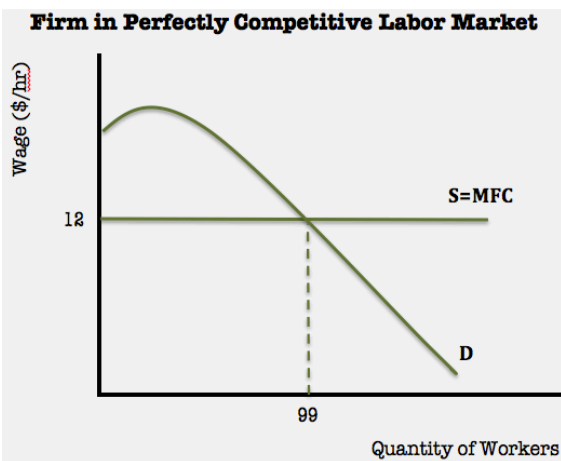
41 The payoff matrix above illustrates the daily profit earned by the only two ice cube manufacturers operating in a small town. The numbers to the left in each cell are for Frozen Inc. At Nash Equilibrium, how much combined daily profit will the two companies earn together?

- (A) \$250
- (B) \$500
- (C) \$550
- (D) \$700
- (E) \$750

41 Skip this question. This exam was created for students that support Jacob Clifford and purchase the Ultimate Review Packet. If someone gave this to you for free then they are:

- (A) Discouraging innovation and entrepreneurship
- (B) Stealing from Mr. Clifford
- (C) Breaking intellectual property right laws
- (D) Being a total jerk
- (E) All of the above

- 42 If a single-price monopolist suddenly finds a legal way to perfectly price discriminate, how will this impact this monopolist's consumer surplus and deadweight loss?
- (A) Consumer surplus will decrease slightly; deadweight loss will remain constant
 (B) Consumer surplus will remain constant; deadweight loss will decrease slightly
 (C) Consumer surplus will remain constant ; deadweight loss will be completely eliminated
 (D) Consumer surplus and deadweight loss will both remain constant
 (E) Consumer surplus and deadweight loss will be eliminated completely

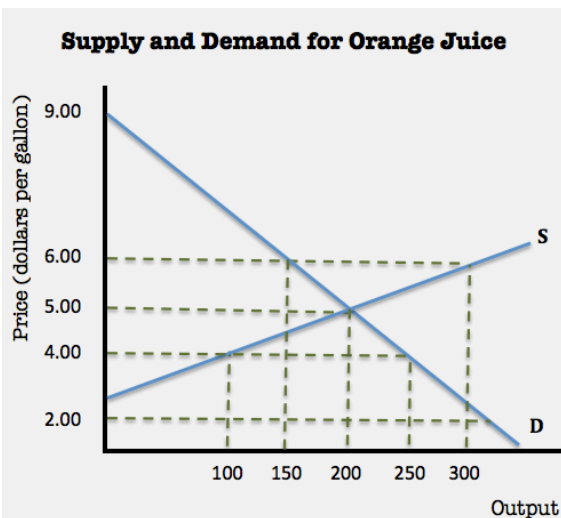


- 43 The graph above shows a firm hiring semi-skilled labor in a perfectly competitive labor market. If a new technology allows only the workers in this firm to double their marginal productivity, how will this effect the wage and optimal number of workers hired once this firm implements this new technology?
- (A) Wage increases and the number of workers hired increases
 (B) Wage increases and the quantity of workers decreases
 (C) Wage remains the same and the quantity of workers increases
 (D) Wage remains the same and the quantity of workers decreases
 (E) Both wage and quantity of workers hired remains the same

- 44 Assume the creation of a public park generates a positive externality for the surrounding community. Which of the following would be true of the costs and benefits of creating public parks in this community?
- (A) Marginal social cost is less than marginal social benefit.
 (B) Marginal social benefit is less than marginal social cost
 (C) The market equilibrium output is greater than the socially efficient output.
 (D) The market equilibrium output is equal to the socially efficient output.
 (E) The marginal social benefit of a park is greater than the marginal social benefit of a school.

- 45 The primary reason governments pass antitrust legislation is to
- (A) prevent large firms from merging or forming monopolies
 (B) protect small businesses from foreign competition
 (C) limit the number of firms in certain market structures
 (D) protect consumers from fraudulent business practices
 (E) allow the government to seize private property when necessary for the common good
- 46 Using the same amount of time and resources, Lydia can assemble either 8 block towers or 4 jigsaw puzzles; Anna can assemble either 4 block towers or 4 jigsaw puzzles. Based on this information, which of the following statements is correct?
- (A) Lydia has a comparative advantage in assembling jigsaw puzzles
 (B) Anna has a comparative advantage in assembling jigsaw puzzles
 (C) Anna has an absolute advantage in assembling jigsaw puzzles
 (D) Anna has an absolute advantage in assembling block towers
 (E) Lydia has a comparative advantage in assembling both block towers and jigsaw puzzles

- 47 Which of the following will cause the demand curve for grape jelly to shift to the left?
- (A) A decrease in the price of peanut butter assuming that peanut butter and jelly are complements
 - (B) An increase in the price of marshmallow fluff assuming that grape jelly and marshmallow fluff are substitutes
 - (C) A increase in the income of consumers, assuming that grape jelly is an inferior good
 - (D) An increase in the wages of workers who work in the jelly factories
 - (E) A decrease in the number of firms producing grape jelly
- 48 Assume marshmallows and graham crackers are complements. If the price of graham crackers decreases, which of the following will most likely occur in the short run in the marshmallow market?
- (A) Demand for marshmallows will decrease
 - (B) Supply for marshmallows will decrease
 - (C) Price and quantity for marshmallows will increase
 - (D) Price and quantity for marshmallows will decrease
 - (E) Quantity for marshmallows will increase, while price for marshmallows is indeterminate



- 49 The graph shows the supply and demand curves for gallons of orange juice. Which of the following will occur if the government establishes a price floor at \$6.00 per gallon?
- (A) a shortage and an increase in consumer surplus
 - (B) a shortage and a decrease in consumer surplus
 - (C) a surplus and an increase in consumer surplus
 - (D) a surplus and a decrease in consumer surplus
 - (E) neither a surplus or shortage will occur
- 50 Assume that restaurant meals are normal with an income elasticity of +1.5. If income decreases by 10%, the quantity of restaurant meals demanded should:
- (A) Increase by more than 10%
 - (B) Increase by less than 10%
 - (C) Decrease by more than 10%
 - (D) Decrease by less than 10%
 - (E) Decrease by exactly 10%
- 51 If a firm's marginal product of labor is decreasing, assuming that labor is the firm's only variable input, which of the following must be true in the short run?
- (A) Marginal cost is increasing
 - (B) Marginal cost is decreasing
 - (C) Average product of labor is decreasing
 - (D) Marginal product of labor is decreasing
 - (E) Total product of labor is decreasing
- 52 If a firm produces 40 units when it hires a total of 20 workers and 100 units when it hires a total of 40 workers the firm is experiencing
- (A) productive efficiency
 - (B) diseconomies of scale
 - (C) increasing returns to scale
 - (D) decreasing returns to scale
 - (E) constant returns to scale

- 53 A chocolate manufacturer earned 1 million dollars in total revenue, which was enough to cover all of its explicit costs. However, an economist concludes that the firm is not earning a normal profit or an economic profit. Which of the following must be true?
 (A) fixed costs are greater than accounting profits
 (B) accounting profits are greater than explicit costs.
 (C) explicit costs are less than implicit costs
 (D) implicit costs are greater than accounting profits
 (E) implicit costs are less than explicit costs
- 54 If a firm is producing where price and marginal cost are identical which of the following must be true?
 (A) total revenue is maximized
 (B) economic profit is maximized
 (C) The firm is producing the productively efficient output
 (D) The firm is producing the allocatively efficient output
 (E) The firm is perfectly competitive
- 55 Compared to perfectly competitive firms, monopolies achieve all of the following in the long run EXCEPT
 (A) Deadweight loss
 (B) Allocative efficiency
 (C) Higher prices
 (D) Lower levels of output
 (E) Long-run economic profit
- 56 Mutual interdependence and price leadership are often characteristics of which of the following market structures?
 (A) Monopoly
 (B) Monopolistic competition
 (C) Oligopoly
 (D) Perfect competition
 (E) Natural monopoly
- 57 A firm that hires its labor in a perfectly competitive labor market will hire workers up to the point where wage equals
 (A) marginal revenue
 (B) marginal revenue product
 (C) marginal physical product
 (D) price of the good produced by the last worker
 (E) marginal factor cost
- 58 In the short run, if marginal cost is greater than average total cost, which of the following must be true?
 (A) The average total cost is increasing
 (B) The marginal cost equals marginal revenue
 (C) The average fixed cost is increasing
 (D) The marginal cost is less than average variable cost
 (E) The marginal cost is decreasing
- 59 When consumption of a good generates a negative externality, which of the following is correct?
 (A) The government could eliminate deadweight loss by imposing a per-unit subsidy
 (B) The government could eliminate deadweight loss by imposing a lump-sum tax.
 (C) The government could eliminate deadweight loss by imposing a per-unit tax.
 (D) If government does not intervene, Marginal social benefit is greater than marginal private benefit.
 (E) If government does not intervene, marginal private cost is greater than marginal social cost.

- 60 The Lorenz curve is used by economists to measure which of the following?
- (A) The responsiveness of quantity demanded or supplied to a change in price
 - (B) the impact changes in unemployment and inflation have upon one another
 - (C) the change in tax revenue in response to a change in the tax rate
 - (D) how equally, or unequally, income is distributed among a population
 - (E) how equally, or unequally, wealth is distributed among a population