

True/False – one point each

- F** 1. An inverse relationship exists between price and the quantity supplied.
- T** 2. General Motors wants wage and benefit concessions from workers as it strives to lower costs.
- F** 3. Corporations issue stock just like sole proprietorships.
- T** 4. Opportunity cost is the net value of the next best alternative to the one you chose.
- T** 5. Decision analysis always revolves around comparing the benefits and costs of one alternative to the benefits and costs of other alternatives.
- F** 6. Since it has control over its price, a monopolist always earns an economic profit.
- F** 7. The market structure characteristic which is somewhat unique to monopolistic competition is the mutual interdependence among firms.
- T** 8. A negative cross price elasticity implies complements, such as hamburgers and French fries.
- F** 9. A firm will always maximize its short run profit by producing and selling the quantity where marginal revenue equals fixed cost.
- T** 10. Economies of scale can be a barrier to entry into an oligopolistic industry.
- T** 11. Non-price competition is typical for restaurants, convenience stores and automobile companies.
- F** 12. A firm always wants to produce and sell the output that earns it the highest possible revenue.
- F** 13. Normal profit is a return above and beyond the minimum return necessary to keep an entrepreneur's investment in a business.
- F** 14. Demand is based on available supply.
- T** 15. Microsoft may raise prices at a slower rate because it worries about new competitors entering markets where it sells goods.
- T** 16. Non-price competition is typical for restaurants, convenience stores and automobile companies.
- F** 17. Local water supply would be an example of monopolistic competition.
- T** 18. The marginal benefit of consuming a good eventually declines, ceteris paribus.
- T** 19. A price ceiling will lead to a deadweight loss, a net loss of value.
- T** 20. Long run average costs (LRACs) reflect the size of a business enterprise.
- T** 21. If demand decreases for houses we expect consumer surplus to decline from home purchases.
- T** 22. The quantity of apples people buy this month depends on the price of apples.
- F** 23. A flood that removes land from production would shift the demand for grain to the left.
- T** 24. Income to one person or business is a cost or expense to another.
- F** 25. The cost curves of a monopolistically competitive firm are based on governmental rules.
- T** 26. A monopolistically competitive firm expects price to exceed marginal cost in its long run equilibrium position.
- F** 27. Costs that do not change once they are incurred are called implicit costs.

- F** 28. If a monopolist is charging \$11 for each unit of output, one can infer that marginal revenue is greater than \$12.
- F** 29. Fixed costs should determine short run decisions.
- T** 30. A firm is breaking even if its $AR = ATC$.

Matching – one point each

- | | | | |
|----------|--------------------------|-----------|--|
| S | 31. Quantity supplied | A. | Non price competition |
| E | 32. Profit maximization | B. | Additional |
| F | 33. Equilibrium | C. | Goal of business |
| G | 34. Deadweight loss | D. | Unique product in market |
| H | 35. Perfect competition | E. | Output where $MR=MC$ |
| B | 36. Marginal | F. | Demand intersects supply |
| N | 37. Own price elasticity | G. | Loss in market value |
| L | 38. Demand | H. | Homogeneous or standardized market |
| M | 39. Game theory | I. | Government set minimum price |
| D | 40. Monopoly | J. | Cost reduction from getting bigger |
| U | 41. Utility | K. | Cost of additional unit |
| J | 42. Economies of scale | L. | A schedule for prices and quantities |
| P | 43. Diminishing returns | M. | Strategic behavior |
| C | 44. Profit | N. | Responsiveness of Q to change in P of good |
| T | 45. Productivity | O. | Agreement among firms on P or Q |
| O | 46. Cartel | P. | Declining marginal product |
| I | 47. Price floor | R. | Where goods are exchanged |
| K | 48. Marginal cost | S. | Amount for sale at a particular price |
| R | 49. Market | T. | Output for input |
| A | 50. Service & location | U. | Value or benefit |

Multiple choice – two points each

- any 51. If the U.S. is to become more energy independent
- we all will be better off
 - it will need to reallocate resources
 - our resources will continue to be used as they are currently
 - we will move along the PPC
 - all of the above
- B 52. All of the following are factors that will shift the demand curve, except:
- the price of related goods
 - the price of the good itself**
 - preferences or utility
 - income

- A 53. If the marginal utility for pizza is decreasing but positive, then:
- a) the total utility for pizza is increasing
 - b) the total utility for pizza is decreasing
 - c) the total utility for pizza is negative
 - d) additional pizza yields zero satisfaction
- any 54. Which of the following are true for a monopolist?
- a) economic profit possible in the long run
 - b) marginal revenue is less than the price charged
 - c) profit maximizing is less than the price charged
 - d) loss minimizing occurs where $MR = MC$
 - e) all of the above
- E 54. Oligopoly refers to the situation wherein a small number of firms are:
- a) making strategic decisions relative to competitors
 - b) interdependent
 - c) facing downward sloping demand
 - d) producing goods which differ in terms of quality, design and so forth
 - e) all of the above

Short answers – five points each

55. At what level of output do firms maximize their profit?
MR = MC
56. What are economies of scale?
Cost reduction due to increased size
57. What is the one thing that always attracts resources into an industry?
Profit
58. Someone is thinking that if they were not taking this exam they would be at their parents' home already. What is the term for where they would be if not at this exam?
Opportunity cost
59. The basis for demand and the main reason it is downward sloping relates to what?
Declining marginal utility