

True/False – one point each

- F** 1. An industry with many sellers, a differentiated product and easy entry would be described as a monopoly.
- F** 2. An inverse relationship exists between price and the quantity supplied.
- F** 3. As a group, consumers have no impact on the price of food purchased from McDonald's.
- T** 4. General Motors wants wage and benefit concessions from workers as it strives to lower costs.
- T** 5. A firm's short run marginal cost rises because of diminishing returns to input use.
- F** 6. Corporations issue stock just like sole proprietorships.
- F** 7. Demand will be upward sloping if marginal utility declines with additional consumption.
- T** 8. Opportunity cost is the net value of the next best alternative to the one you chose.
- T** 9. Lower interest rates might induce additional capital spending that would cause an increase in supply.
- T** 10. Decision analysis always revolves around comparing the benefits and costs of one alternative to the benefits and costs of other alternatives.
- T** 11. As income increases, most goods will have increases in demand but goods that have an income elasticity below zero will have decreases in demand.
- F** 12. Since it has control over its price, a monopolist always earns an economic profit.
- T** 13. Economics is about decision making.
- F** 14. The market structure characteristic which is somewhat unique to monopolistic competition is the mutual interdependence among firms.
- T** 15. Profits attract resources into an industry.
- T** 16. A negative cross price elasticity implies complements, such as hamburgers and French fries.
- F** 17. If the price of a twelve pack of beer increases from \$6.99 to \$8.99, the demand will shift back or to the left.
- F** 18. A firm will always maximize its short run profit by producing and selling the quantity where marginal revenue equals fixed cost.
- T** 19. Average variable costs will decline initially and eventually increase as output increases.
- T** 20. Economies of scale can be a barrier to entry into an oligopolistic industry.
- T** 21. Price discrimination is charging different consumers different prices.
- T** 22. Non-price competition is typical for restaurants, convenience stores and automobile companies.
- F** 23. An inverse relationship exists between price and quantity supplied.
- F** 24. A firm always wants to produce and sell the output that earns it the highest possible revenue.
- F** 25. An increase in fixed cost will cause a firm to increase price to remain at its most profitable combination of price and quantity produced in the short run.

- F** 26. Normal profit is a return above and beyond the minimum return necessary to keep an entrepreneur's investment in a business.
- T** 27. The inability to borrow could force some businesses to close.
- F** 28. Demand is based on available supply.
- T** 29. Expectations related to prices and income can shift demand.
- T** 30. Microsoft may raise prices at a slower rate because it worries about new competitors entering markets where it sells goods.

Multiple choice – two points each

- ANY** 31. If the U.S. is to become more energy independent
 - a) we all will be better off
 - b) it will need to reallocate resources
 - c) our resources will continue to be used as they are currently
 - d) we will move along the PPC
 - e) all of the above
- E** 32. The production possibilities curve for a university professor might have the outputs listed as research and teaching, so
 - a) the opportunity cost of more teaching is less research
 - b) some faculty should teach more and some should research more
 - c) a good researcher might be used to teach more if that department has lots of good researchers
 - d) more faculty should shift the PPC outward
 - e) **all of the above**
- B** 33. Suppose the local government decides to reduce traffic congestion on a bridge by imposing a toll. The toll will be most effective if the price elasticity demand for the bridge is:
 - a) inelastic
 - b) **elastic**
 - c) unitary
 - d) either unitary or inelastic
- B** 34. All of the following are factors that will shift the demand curve, except:
 - a) the price of related goods
 - b) **the price of the good itself**
 - c) preferences or utility
 - d) income
- A** 35. 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

Matching – one point each

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|---|-----|----------------------|----|--|
| E | 36. | Monopoly | A. | Additional |
| B | 37. | Profit maximization | B. | Output where $MR = MC$ |
| G | 38. | Equilibrium | C. | Minimum return to maintain investment |
| H | 39. | Deadweight loss | D. | What was given up |
| I | 40. | Perfect competition | E. | Unique product in market |
| A | 41. | Marginal | F. | Goal of business |
| F | 42. | Profit | G. | Demand intersects supply |
| M | 43. | Demand | H. | Loss in market value |
| N | 44. | Game theory | I. | Homogeneous or standardized market |
| U | 45. | Quantity supplied | J. | Cost reduction from getting bigger |
| D | 46. | Opportunity cost | K. | Cost of additional unit |
| V | 47. | Long run | L. | Government set minimum price |
| C | 48. | Normal profit | M. | A schedule of prices and quantities |
| Q | 49. | Price discrimination | N. | Strategic behavior |
| R | 50. | Oligopoly | O. | Agreement among firms on P or Q |
| W | 51. | Utility | P. | Responsiveness of Q to change in P of the good |
| J | 52. | Economies of scale | Q. | Charging different prices |
| S | 53. | Diminishing returns | R. | Firms are interdependent |
| K | 54. | Marginal cost | S. | Declining marginal product |
| X | 55. | Productivity | T. | Where goods are exchanged |
| O | 56. | Cartel | U. | Amount for sale at a particular price |
| L | 57. | Price floor | V. | Multiple production periods |
| P | 58. | Own price elasticity | W. | Value or benefit |
| T | 59. | Market | X. | Output per input |
| Y | 60. | Service & location | Y. | Non price competition |