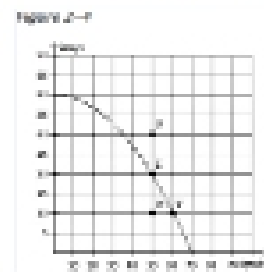
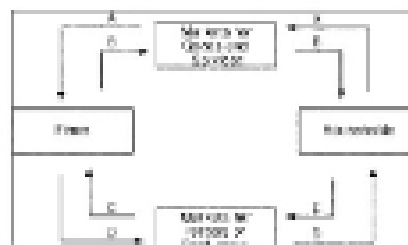
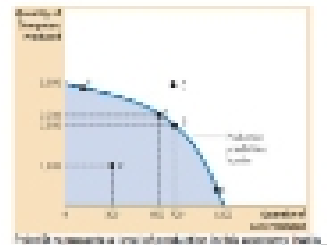


- Economics is the study of how society manages its scarce resources
- Which is the most accurate statement about trade? Trade can make every nation better off
- The principles of decision making include all of the following EXCEPT People respond to bribes
- Govt can potentially improve market outcomes if there is a market failure or if the market outcome is _____ . Inequitable
- A tradeoff exists between a clean environment and a higher level of income in that Laws that reduce pollution raise costs of production and reduce incomes
- You are selling your 2010 Honda. At the last minute, the transmission dies. You can pay \$600 to have it repaired, or sell the car "as is." In the interest of your best choice, you consider that the value (what you could get for the car) is \$6500 if transmission works, \$6700 if it doesn't so since you're such a good economics student you _____ Get the car fixed because will the value of a fixed car exceeds the value of one that isn't fixed.
- One way to characterize the difference between positive statements and normative statements is as follows: Positive statements offer descriptions of the way things are, whereas normative statements offer opinions on how things ought to be.
- The two basic reasons why economists often appear to give conflicting advice to policymakers are differences in scientific judgments and values.
- Almost all economists agree that rent control adversely affects the availability and quality of housing
- Point D represents a level of production in this economy that is _____ possible but not efficient
- Which arrow represents the flow of goods and services? B



- The bowed shape of the production possibilities frontier can be explained by the fact that the opportunity cost of one good in terms of the other increases as one changes production points along the frontier
- Refer to Figure 2-4. The opportunity cost of this economy moving from point Z to point Y is 10 lamps
- Refer to Figure 2-6. Efficient production is represented by which point(s)? A,B
- Refer to Figure 2-11. The shift of the production possibilities frontier from A to B can best be described as economic growth.
- The United States and Germany can produce the following amounts of steel and coal in thousands of tons per week. What is the opportunity cost of producing one ton of steel in the United States? 3 tons
- The United States and Germany can produce the following amounts of steel and coal in thousands of tons per week. Which country has a comparative advantage in the production of coal? Germany
- The United States and Germany can produce the following amounts of steel and coal in thousands of tons per week. What country will specialize in the production of steel if international trade takes place? US
- The forces that make market economies work are Supply & demand
- Refer to Figure 4-1. The movement from point A to point B on the graph shows An increase in quantity demanded
- The law of demand states that, other things equal, when the price of a good falls, the quantity demanded of the good rises
- The market demand curve is the sum of all individual demand curves.
- Refer to Figure 4-6. The shift from D to D' is called A decrease in demand
- If a good is normal, then an increase in income will result in a(n) increase in the demand for the good
- Currently you purchase ten frozen pizza per month. You will graduate from college in December, and you will start a new job in January. You have no plans to purchase frozen pizzas in January. For you, frozen pizzas are a(n) inferior good.
- If American cheese and cheddar cheese are substitutes, then which of the following would increase the demand for cheddar cheese? an increase in the price of American cheese
- Today, people changed their expectations about the future. This change can affect today's demand
- Refer to Figure 4-10. Which of the following would cause the supply curve to shift from Supply B to Supply A in the market for disposable ballpoint pens? An increase in the price of ink
- Wheat is the main input in the production of flour. If the price of wheat decreases, then we would expect the Supply of flour to increase
- Refer to Figure 4-13. If the supply curves that are drawn represent supply curves for single-family residential houses, then the movement from S to S' could be caused by a(n) decrease in the price of lumber.
- In a market economy, who or what determines who produces each good and how much is produced? Prices

- When studying how some event or policy affects a market, elasticity provides information on the direction and magnitude of the effect.
- The price elasticity of demand measures how much quantity demanded responds to a change in price.
- If the price of gasoline rises, when is the price elasticity of demand likely to be the highest? one year after the price increase
- Demand is said to be price elastic if buyers respond substantially to changes in the price of the good
- Which of the following is likely to have the most price inelastic demand? Toothpaste
- Suppose the price of potato chips decreases from \$1.45 to \$1.25 and, as a result, the quantity of potato chips demanded increases from 2,000 to 2,200. Using the midpoint method, the price elasticity of demand for potato chips in the given price range is 0.64
- Refer to Table 5-2. Using the midpoint method, if the price falls from \$80 to \$60, the absolute value of the price elasticity of demand is 2.33
- For a horizontal demand curve, the slope is equal to 0 and the price elasticity of demand is undefined
- Ryan says that he would buy one cup of coffee every day regardless of the price. If he is telling the truth, Ryan's demand for coffee is perfectly inelastic
- When quantity moves proportionately the same amount as price, demand is unit elastic, and the price elasticity of demand is 1
- Consider luxury weekend hotel packages in Las Vegas. When the price is \$250, the quantity demanded is 2,000 packages per week. When the price is \$280, the quantity demanded is 1,700 packages per week. Using the midpoint method, the price elasticity of demand is about 1.43, and an increase in the price will cause hotels' total revenue to decrease.
- How does total revenue change as one moves downward and to the right along a linear demand curve? It first increases, then decreases
- If demand is price inelastic, then when price rises, total revenue Will rise
- Refer to Figure 6-12. Total revenue when the price is P₁ is represented by the area(s) B+D
- In a free, competitive market, what is the rationing mechanism? Price
- A shortage results when a Binding price ceiling is imposed on a market
- A legal minimum on the price at which a good can be sold is called a price Floor
- Refer to Figure 6-3. A binding price floor is shown in Panel (b) only
- Refer to Figure 6-8. If the government imposes a price ceiling of \$2 on this market, then there will be A

Table 5-2

| Price | Quantity |
|-------|----------|
| \$100 | 0 |
| \$80 | 10 |
| \$60 | 20 |
| \$40 | 30 |
| \$20 | 40 |
| \$0 | 50 |

- A production function describes how a firm turns inputs into output.
- Refer to Figure 7-2. When the price is P₂, consumer surplus is A
- A firm that is the sole seller of a product without close substitutes is monopolists
- Which of these assumptions is often realistic for a firm in the short run? The firm can vary the number of workers it employs but not the size of its factory
- A U-shaped long-run average total cost curve contains portions where average total cost(ATC) falls as production(Q) increases called _____ and portions where average total cost(ATC)rises as production(Q) increases called _____. economies of scale, diseconomies of scale.
- Which of the Ten Principles of Economics does welfare economics explain more fully Markets are usually a good way to organize economic activity
- Accounting profit ignores _____ costs so it is _____ than Economic Profit. Implicit, higher
- A seller is willing to sell a product only if the seller receives a price that is at least as great as the seller's cost of production
- What is the Consumer Surplus(CS) when the Price(P) = \$30? \$60
- Suppose price(P) falls to \$20. How much will Consumer Surplus(CS) increase due to buyers entering the market? \$60
- The individual supply curve in the short run is that portion of the MC curve that lies above minimum _____ (Above the _____ in the Long run). AVC, ATC
- Refer to Figure 13-10. The firm experiences economies of scale if it changes its level of output from Q₁ to Q₂.
- Which of the following measures of cost is best described as "the increase in total cost that arises from an extra unit of production?" marginal cost
- Refer to the table above. If the output of bicycles is 4 per week, then the marginal cost of producing the 6th bicycle is 140
- Which of the following is not an example of a barrier to entry? A college student starts a part-time tutoring business
- When markets fail, public policy can potentially remedy the problem and increase economic efficiency.
- When firms are said to be price takers, it implies that if a firm raises its price, buyers will go elsewhere.
- If a firm produces nothing, which of the following costs will be zero? variable cost
- What is the deadweight loss for this profit-maximizing monopoly? 25
- Which of the following statements regarding a competitive market is not correct? Because of firm location or product differences, some firms can charge a higher price than other firms and still maintain their sales volume.
- Which of the following are not examples of barriers to market entry? Welfare pricing

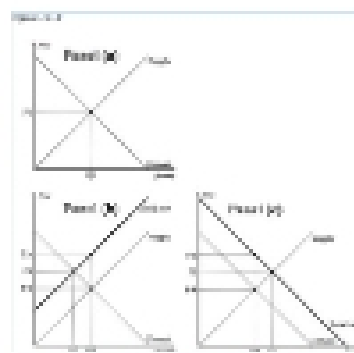
| Output (Bicycles per Week) | Total Cost (\$/Bike) |
|----------------------------|----------------------|
| 1 | 100 |
| 2 | 210 |
| 3 | 310 |
| 4 | 440 |
| 5 | 580 |
| 6 | 730 |
| 7 | 900 |
| 8 | 1200 |

22. A firm maximizes profit at a level of production where marginal revenue equals marginal cost
23. What is the equilibrium price and quantity for this perfectly competitive market, respectively? \$2.60, 160
24. A perfectly competitive firm's price depends on the market supply and demand
25. A monopolist is a price maker
26. A perfectly competitive market structure is characterized by many buyers and sellers, goods are the same products, and free entry and exit.
27. A monopoly is a firm that _____ is the sole seller, produces a product with no close substitutes, and market power
28. The firm's short-run shutdown price is the _____ point of the _____ curve. minimum; average-variable-cost
29. Refer to Figure 13-3. The changing slope of the total cost curve reflects, decreasing marginal product
30. The DeBeers company faces very little competition from other firms in the wholesale diamond market. Why isn't the price of the wholesale diamonds \$10,000 per carat? because the company would sell so few copies that they would earn higher profits by selling at a lower price
31. Most markets are not monopolies in the real world because there are reasonable substitutes for most goods.
32. In a Monopoly there are many things that still exist regardless of its "Price Maker" status. Of the 3 noted below, which will no longer exist in a firm that can practice Perfect Price Discrimination? Consumer Surplus and Deadweight Loss
33. In comparing market structures. Which one maximizes Total Surplus? perfect competition
34. Refer to Figure 7-6. At the equilibrium price, consumer surplus is \$300
35. A positive economic profit will encourage market entry.
36. Suppose price(P) falls to \$20. How much will Consumer Surplus(CS) increase due to existing buyers paying the lower price? \$100
37. Inefficiency exists in an economy when a good is not being consumed by buyers who value it most highly.
38. What is the marginal buyer's Willingness to Pay(WTP) at quantity(Q) = 10? \$30
39. Refer to Figure 7-1. If the price of the good is \$260, then consumer surplus amounts to \$60
40. Find marginal seller's cost at quantity(Q) = 10. Marginal Cost equals ____ \$20
41. Find total Producer Surplus(PS) for price(P) = \$20. \$100
42. What could explain shift in the market supply curve from S₁ to S₂? Firms are exiting the market due to the presence of negative economic profit.
43. What kind of costs remain the same regardless of the level of production? Fixed
44. The demand curve facing a monopolist is negatively sloped but relatively inelastic
45. A monopoly that emerges because of economies of scale is called a natural monopoly.
46. For an individual firm operating in a competitive market, marginal revenue equals average revenue and the price for all levels of output.
47. The demand curve of the individual firm in perfect competition is a horizontal line at the market price
48. Because the goods offered for sale in a competitive market are largely the same, sellers will have little reason to charge less than the going market price.
49. Refer to Table 14-3. For a firm operating in a competitive market, the price is \$7
50. This monopolistic firm will maximize profits or minimize losses by producing ____ and charging _____. 4; 6.0 dollars per hour

Table 14-3

| Quantity | Total Revenue |
|----------|---------------|
| 0 | 0 |
| 1 | 17 |
| 2 | 54 |
| 3 | 81 |
| 4 | 118 |

1. The term market failure refers to a market that fails to allocate resources efficiently.
2. A cost imposed on someone who is neither the consumer nor the producer is called a negative externality.
3. A positive externality arises when a person engages in an activity that has a beneficial effect on a bystander who does not pay the person who causes the effect
4. Refer to Figure 10-1. This graph represents the tobacco industry. The industry creates negative externalities.
5. Refer to Figure 10-1. This graph represents the tobacco industry. The socially optimal price and quantity are \$1.80 and 36 units, respectively
6. Negative externalities lead markets to produce greater than efficient output levels and positive externalities lead markets to produce smaller than efficient output levels.
7. Patents do not protect the rights of inventors for their lifetimes
8. Refer to Figure 10-9. Which graph represents a market with a positive externality? Panel (c)
9. In many cases selling pollution permits is a better method for reducing pollution than imposing a corrective tax because it is hard to estimate the market demand curve and thus charge the "right" corrective tax.
10. Refer to Figure 10-19. The social optimum can be reached if a subsidy of \$36 is applied to each unit of the good.
11. Governments can improve market outcomes for both public goods and common resources
12. Because public goods are not excludable, people have an incentive to be free riders



13. Without government intervention, public goods tend to be underproduced and common resources tend to be overconsumed.
14. A free rider is a person who receives the benefit of a good but avoids paying for it.
15. The government provides public goods because free-riders make it difficult for private markets to supply the socially optimal quantity.
16. An overcrowded beach is an example of a Tragedy of the Commons
17. The Tragedy of the Commons can be corrected by assigning property rights to individuals
18. If the use of a common resource is not regulated, it will be overused.
19. Refer to Figure 11-1. The box labeled A represents private goods
20. Markets do not ensure that the air we breathe is clean because property rights are not well established for clean air.
21. Monopolistic competition is a type of market structure
22. Which of the following pairs illustrates the two extreme examples of market structures? competition and monopoly
23. A monopolistically competitive industry is characterized by many firms, differentiated products, and free entry.
24. In a monopolistically competitive industry, a firm's demand curve also represent its average revenue.
25. Refer to Figure 16-1. The firm's profit-maximizing level of output is 12 units
26. Refer to Figure 16-1. In order to maximize profit, the firm will charge a price of \$18
27. Refer to Figure 16-1. Suppose that average total cost is \$18 when Q=12. What is the profit-maximizing price and resulting profit? P=\$18, profit=\$0
28. If firms in a monopolistically competitive market are earning positive profits, then new firms will enter the market
29. When a firm's demand curve is tangent to its average total cost curve, the firm's economic profit is zero.
30. A distinguishing feature of an oligopolistic industry is the tension between cooperation and self interest
31. An agreement between two duopolists to function as a monopolist usually breaks down because each duopolist wants a larger share of the market in order to capture more profit.
32. An agreement among firms in a market about quantities to produce or prices to charge is called collusion.
33. When an oligopoly market reaches a Nash equilibrium, a firm will have chosen its best strategy, given the strategies chosen by other firms in the market.
34. In order to be successful, a cartel must agree on the total level of production and on the amount produced by each member.
35. The equilibrium quantity in markets characterized by oligopoly is higher than in monopoly markets and lower than in perfectly competitive markets.
36. Cartels in the United States are illegal
37. Figure 17-1. Two companies, ABC and XYZ, each decide whether to produce a high level of output or a low level of output. In the figure, the dollar amounts are payoffs and they represent annual profits for the two companies. Refer to Figure 17-1. The dominant strategy for ABC is to produce high output, and the dominant strategy for XYZ is to produce high output
38. The prisoners' dilemma game has a Nash equilibrium, but the Nash equilibrium outcome is not the outcome the players would agree to if they could cooperate with each other.
39. The inputs used to produce goods and services are called factors of production.
40. Factor markets are different from product markets in an important way because the demand for a factor of production is a derived demand.
41. The marginal product of labor is the increase in the amount of output from an additional unit of labor
42. Diminishing marginal product affects the shape of the production function in what way? The slope of the production function decreases as the quantity of input increases.
43. For a profit-maximizing, competitive firm, the value of the marginal product of labor is the firm's demand for labor.
44. Value of marginal product is defined as the additional revenue earned from hiring one more factor of production.
45. If the value of the marginal product of labor exceeds the wage, then the firm could increase profit by hiring additional labor.
46. The value of the marginal product of labor is calculated by multiplying the price of output by the marginal product of labor
47. Figure 18-1. On the graph, L represents the quantity of labor and Q represents the quantity of output per week. Refer to Figure 18-1. The marginal product of the second worker is 90 units of output
48. The figure below shows the production function for a particular firm. Refer to Figure 18-2. The marginal product of the third worker is 20 units
49. Refer to Figure 18-4. The graph above illustrates the market for bakers who make homemade breads and breakfast pastries. If the price of breakfast pastries falls, what happens in the market for bakers? Demand decreases from D₂ to D₁.
50. Refer to Figure 18-6. The graph above illustrates the market for bakers who make homemade breads and breakfast pastries. If the bakery profession becomes more attractive to young women and men because of a new reality television show, what happens in the market for bakers? Supply increases from S₁ to S₂.

Figure 11-1



Figure 16-1. The figure is drawn for a monopolistically competitive firm.

