

**Principles of Microeconomics
EC 110**

SAMPLE EXAM 3

ANSWERS TO MULTIPLE CHOICE QUESTIONS ARE FOUND AT THE END OF THE TEST.

NAME _____

STUDENT NUMBER _____

ROW NUMBER _____

SEAT NUMBER _____

1. Economists assume that the goal of the firm is to maximize
 - A. total revenue
 - B. total profit
 - C. total costs
 - D. total satisfaction

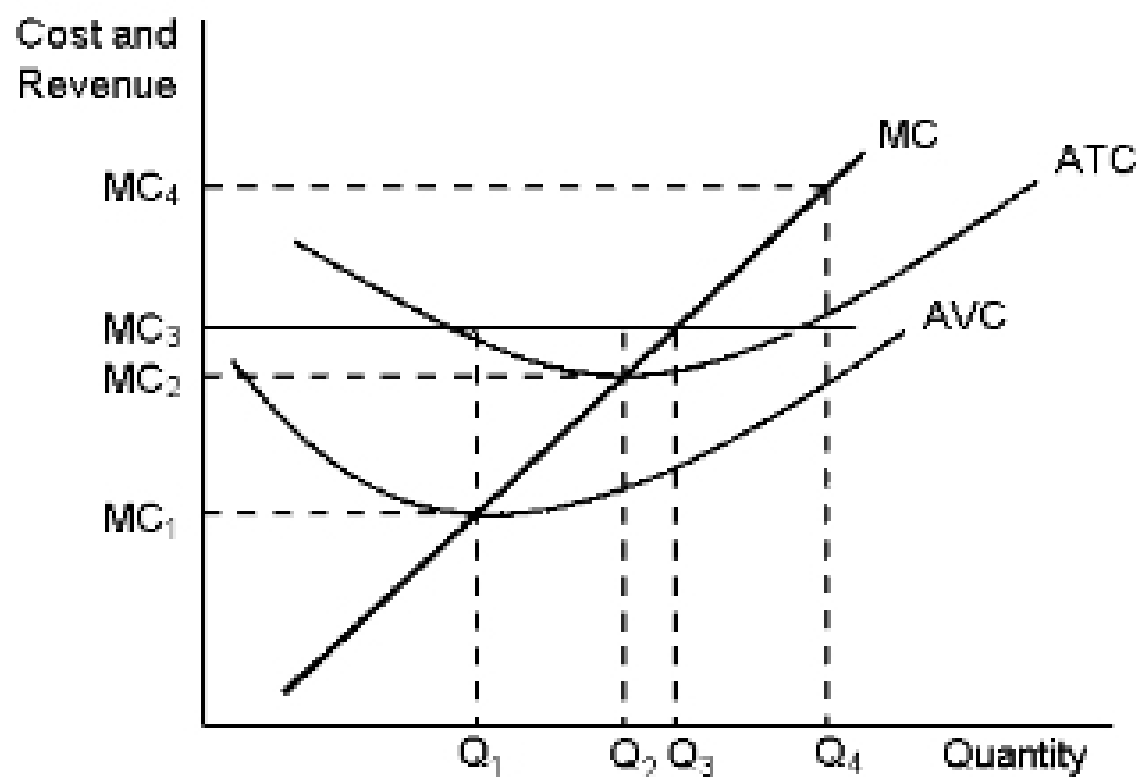
2. If a perfectly competitive firm produces 100 units of a good and has marginal revenue of \$5.00, what is the firm's total revenue?
 - A. \$5
 - B. \$100
 - C. \$50
 - D. \$500

3. Economies of scale occur when, as output increases, the
 - A. long-run average cost increases
 - B. long-run average cost decreases
 - C. short-run average cost decreases
 - D. long-run average cost stays constant

4. Which of the following measures of cost is best described as "the increase in total cost that arises from an extra unit of production?"
 - A. variable cost
 - B. average variable cost
 - C. average total cost
 - D. marginal cost

5. Accounting profit
 - A. factors in implicit costs as well explicit costs
 - B. factors in just explicit costs
 - C. factors in just implicit costs
 - D. factors in neither implicit nor explicit costs

6. The textile industry is composed of a large number of small firms. In recent years, these firms have suffered economic losses and many sellers have left the industry. Therefore, these conditions will
- shift the demand curve outward so that price will rise to the level of production cost
 - cause the remaining firms to collude so that they can produce more efficiently
 - shift the market supply left and the price of textiles will rise
 - cause firms in the textile industry to suffer long run economic losses
7. An important implicit cost of almost every business is
- the cost of labor
 - the cost of utilities used in the manufacturing process
 - the opportunity cost of financial capital that has been invested in the business
 - the cost of raw materials used to manufacture a product
8. Spring Hill Bottling Company has average variable costs of \$6 and average total costs of \$10 when it produces 1,000 units of bottled water. The firm's total fixed costs equal
- \$2,000
 - \$3,000
 - \$4,000
 - \$5,000
9. When a perfectly competitive firm makes a decision to shut down, it is most likely that
- marginal cost is above average variable cost.
 - price is below the minimum of average variable cost.
 - fixed costs exceed variable costs.
 - average fixed costs are rising.



10. If marginal revenue is equal to MC_4 , the profit-maximizing firm will produce what level of output?
- Q_1
 - Q_2
 - Q_3
 - Q_4
11. If marginal cost is positive, a firm's total cost is _____ as output increases.
- increasing
 - decreasing
 - constant
 - negative

12. When a factory is operating in the short run,
- A. total costs and variable costs are the same
 - B. average fixed costs rise as output increases
 - C. it cannot adjust the quantity of fixed inputs
 - D. it cannot alter its variable costs
13. Which of the following is NOT a characteristic of a perfectly competitive market?
- A. Firms are price takers.
 - B. Firms have difficulty entering the market.
 - C. There are many sellers in the market.
 - D. Goods offered for sale are largely the same.
14. Which of the following is true in long-run equilibrium under perfect competition?
- A. Economic profit is zero.
 - B. There is no incentive for entry or exit of firms.
 - C. Long-run average cost is minimized.
 - D. All of the above are true
15. Suppose that a perfectly competitive market is in a short-run equilibrium with firms earning positive economic profit. What change is most likely to occur in this market in the long run?
- A. consumers will decrease their purchases reducing demand and reducing price
 - B. costs will increase, increasing the price of the product
 - C. new firms will enter the market increasing output
 - D. existing firms will increase price due to the potential for greater profits
16. Suppose a perfectly competitive firm is producing 50 units, and at this output, its average variable cost is minimized at \$3. If the market price is \$2, the firm should
- A. continue to operate at an output of 50
 - B. increase output beyond 50
 - C. continue to produce, but decrease output to below 50
 - D. shut down
17. As output increases in the short run, average fixed costs:
- A. rise
 - B. fall
 - C. remain constant
 - D. rise then fall as output increases
18. Economic profit is equal to
- A. total revenues minus explicit costs
 - B. total revenues minus implicit costs
 - C. total revenues minus marginal costs
 - D. total revenues minus explicit and implicit costs