Sample Multiple Choice Questions, ECO 5003 EXAM 2, Fall 2003

MULTIPLE CHOICE. Identify the letter of the choice that best completes the statement or answers the question.

1. The law of diminishing marginal returns states that
   a. long-run average costs decline as output increases
   b. if the marginal product is above the average product, the average will rise
   c. as units of a variable input are added to a given amount of fixed inputs, the marginal product of the variable input eventually diminishes
   d. as a person consumes more of a good, the marginal satisfaction from that good eventually diminishes
   e. if marginal product is positive, total product rises

2. If the average height in our classroom were 5 feet 10 inches and Patrick Ewing, who is 7 feet tall, came in and sat down,
   a. the average height would rise to 7 feet
   b. the marginal height would be 5 feet 10 inches
   c. the average height would not change
   d. the average height would rise somewhat
   e. the marginal height would rise

3. Assume a monopolistically competitive firm is earning an economic profit. The marginal revenue from selling an additional unit is $30 and the marginal cost of producing that additional unit is $23. The firm should
   a. change neither its price nor its output level
   b. reduce its price and increase its output level
   c. increase its price and reduce its output level
   d. reduce both its price and its output level
   e. increase both its price and its output level

4. Which of the following are implicit costs for a typical firm?
   a. insurance costs
   b. electricity costs
   c. opportunity costs of capital owned and used by the firm
   d. cost of labor hired by the firm
   e. the cost of raw materials

5. If the Baloney Store earns more than a normal profit, its
   a. economic profit must be greater than its accounting profit
   b. economic profit is positive
   c. economic profit is, therefore, equal to its accounting profit
   d. accounting profit is zero
   e. accounting profit is less than its economic profit
6. Bart operates a lemonade stand in front of his house. His father works at the Springfield Nuclear Power Plant. Which of the following is most likely to be true?
   a. The long run is the same for the power plant as it is for the lemonade stand.
   b. The long run is longer for the power plant than it is for the lemonade stand.
   c. The long run is shorter for the power plant than it is for the lemonade stand.
   d. We cannot compare the long runs because these are different businesses.
   e. It's impossible for the power plant short run to be shorter than the lemonade stand's long run.

7. On a graph of production costs, the vertical distance between the fixed cost curve and the total cost curve at a specific quantity represents
   a. variable cost
   b. average variable cost
   c. average total cost
   d. average fixed cost
   e. marginal cost

8. Assume that an industry is perfectly competitive. In this industry we are likely to find
   a. firms producing a wide variety of products
   b. barriers to entry
   c. no profit possible in the short run
   d. firms that do not advertise
   e. firms that can choose the price of their products

9. Because market price remains constant as a perfectly competitive firm expands output, each firm faces
   a. a downward-sloping demand curve
   b. a horizontal demand curve
   c. constant returns to scale
   d. constant costs
   e. diminishing marginal revenue

10. If a firm in perfect competition charges the market price of $14 per unit,
    a. its marginal revenue is $14, and its average revenue is less than $14 per unit
    b. it will sell no output
    c. its average revenue is $14, and its marginal revenue is less than $14 per unit
    d. its average revenue is $14, and its marginal revenue is $14
    e. its average and marginal revenue are $14 only for the first unit sold

11. If average revenue equals average total cost,
    a. total revenue is maximized
    b. average revenue is maximized
    c. average total cost is minimized
    d. economic profit is maximized
    e. economic profit is zero

12. Which of the following is not a condition of long-run equilibrium for perfectly competitive firms?
    a. price is equal to marginal cost
    b. price is equal to minimum short-run average total cost
    c. price is equal to minimum long-run average cost
    d. price is equal to marginal revenue
    e. economic profit is positive
13. The demand curve a monopolist faces
   a. is more elastic than a perfectly competitive firm’s demand curve
   b. is the market demand curve
   c. is as elastic as a perfectly competitive firm’s demand curve
   d. is not affected by the prices of complements
   e. will not shift in response to a change in consumer tastes

14. A monopolist
   a. can charge whatever price it wants
   b. charges more than almost any consumer is willing to pay
   c. is constrained by marginal cost in setting price
   d. is constrained by demand in setting price
   e. always earns an economic profit

15. The main reason a monopolist can earn long-run economic profit, whereas a perfectly competitive firm cannot, is that
   a. monopolists operate under economies of scale
   b. perfectly competitive firms have opportunity costs
   c. demand for the monopolist’s output is inelastic
   d. demand for the monopolist’s output is elastic
   e. there are no barriers to entry in perfect competition

16. Derived demand refers to
   a. demand curves derived from utility functions
   b. an individual demand curve estimated from a market demand curve
   c. a market demand curve estimated from individual demand curves
   d. demand for a resource derived from the demand for the product produced by that resource
   e. demand for a product derived from the demand for the resource used to make that product

17. Marginal revenue product is defined as
   a. the total revenue generated by inputs
   b. the additional output produced by one additional unit of a resource, other things constant
   c. the marginal revenue from each unit of output
   d. the total revenue divided by the number of resources employed
   e. the additional revenue generated by one additional unit of a resource, other things constant

Answer Section

MULTIPLE CHOICE

1. C  10. D
2. D  11. E
5. B  14. D
7. A  16. D
8. D  17. E
9. B