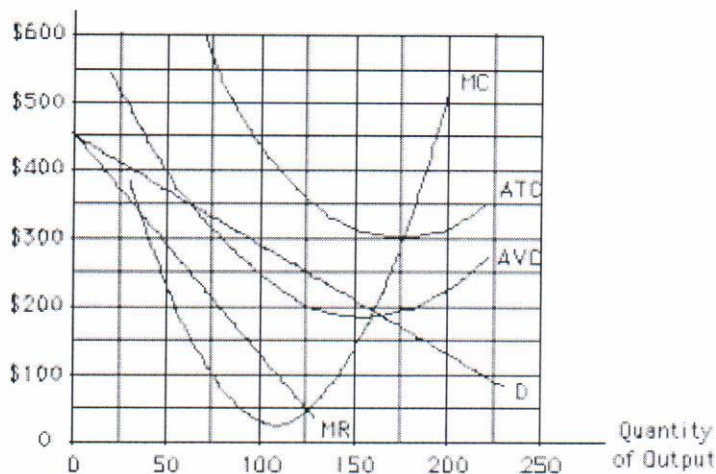


Multiple-Choice: Identify the letter of the choice that best completes the statement or answers the question.

- 1** If a perfectly competitive industry were initially in a long-run equilibrium and experiences a permanent increase in demand, we would expect to see, initially, a higher market price emerge and firms making an economic profit _____ than zero. Eventually, some firms will _____ the industry and the price will _____ until the market is back in a long-run equilibrium.
- A. greater, exit; increase
 - B. greater, enter into; increase
 - C. less; enter into; increase
 - D. greater, enter into; decrease
 - E. less; exit; increase
- 2** Abby quit her \$50,000 per year job to start her own business. In the first year, her business received \$200,000 in revenue, with the following costs: \$100,000 in wages to her employees, \$20,000 on miscellaneous materials used in her business, and \$20,000 on electrical, gas, and water usage. Abby also used \$50,000 of her personal savings to purchase equipment for her business. She was earning 10 percent interest on her savings. Assuming no depreciation in the value of the equipment, Abby's business earned an economic profit for the year of _____.
- A. \$60,000
 - B. \$55,000
 - C. \$5,000
 - D. -\$40,000
 - E. -\$45,000
- 3** Juan's marginal utility from his last pound purchased of strawberries is 200 and his marginal utility from his last purchase of a pint of cream is 200. Juan has spent his entire budget. The price of strawberries is \$5 per pound and the price of cream is \$10 per pint. Consider that strawberries and cream are the only goods in Juan's bundle of goods and that it is possible to buy any portion of a quantity of these two goods (the continuous in quantity case). To maximize his utility consumer choice theory suggests that Juan _____.
- A. is maximizing his utility.
 - B. should have bought less cream and more strawberries.
 - C. should have bought more cream and less strawberries.
 - D. should have bought more cream and more strawberries.
 - E. should have bought less cream and less strawberries.

- 4 Betty's Bagels sells 500 bagels each day at a price of \$1 each. She could sell as many as she wishes at that price, but if she tried to sell her bagels for \$1.01 she would not be able to sell any bagels at all. Consider Betty's bagel from a short-run perspective. If the marginal cost of producing an additional bagel is \$0.75, Betty _____
- A. is producing too many bagels from society's point of view.
 - B. is earning an economic profit of \$125 per day.
 - C. is currently maximizing her profits.
 - D. would reduce her profits if she produced even one more bagel.
 - E. should produce more bagels to increase her profits.
- 5 The result of a \$20 unit tax imposed on the market for computer tablets was an increase of equilibrium price from \$300 to \$308. According to this information, we can conclude that buyers pay a(n) _____ share of the tax when compared to the share of tax that what sellers pay. This is because demand is _____ price elastic than supply over this price range.
- A. smaller; less
 - B. smaller; more
 - C. larger; less
 - D. larger; more
 - E. equal; unitary
- 6 The production costs of coffee decrease and simultaneously well believed reports are circulated that five cups of coffee per day reduces the risk of brain tumors. The supply and demand model predicts that the supply of coffee _____, demand for coffee _____, the equilibrium price of coffee will _____, and the equilibrium quantity of coffee will _____.
- A. decreases; increases; decrease; increase
 - B. increases; remains the same; increase; increase
 - C. increases; increases; remains the same; increase
 - D. increases; increases; may increase or decrease or remain the same; increase
 - E. increases; increase; increases; may increase or decrease or remain the same
- 7 Suppose that Adam is willing to purchase his first milkshake for \$10, his second for \$5 and his third for \$3. Ben is willing to purchase his first milkshake for \$9, his second for \$7 and his third for \$4. If market price is \$6, then the combined consumer surplus for Adam and Ben is _____.
- A. \$2
 - B. \$4
 - C. \$7
 - D. \$10
 - E. \$8

- 8 Largeville and Smallville both produce mushrooms and blueberries. Largeville can produce 250 mushrooms per hour of labor or 15 boxes of blueberries per hour of labor. Smallville can produce 200 mushrooms per hour of labor or 10 boxes of blueberries per hour of labor. Which of the statements is true about comparative advantage?
- Smallville has a comparative advantage in mushrooms
 - Smallville has a comparative advantage in both goods.
 - Largeville has a comparative advantage in mushrooms.
 - Largeville has a comparative advantage in both goods.
 - Comparative advantage cannot be determined here.
- 9 After an increase in the price of inputs used in making hats, which of the following statements is most likely to be true about the hat market?
- Both supply and demand has increased.
 - The equilibrium quantity demanded has increased.
 - The equilibrium quantity demanded has decreased.
 - Both supply and demand has decreased.
 - Demand has decreased.



- 10 Consider a single price monopoly firm with the above cost curves and market demand. Its profit maximizing price is _____ and its profit maximizing quantity is _____.
- \$50 and 125
 - \$250 and 125
 - \$300 and 175
 - None of the above is correct since the firm would shut down.
 - \$180 and 160

- 11 Suppose that wheat farmers in a region experience flooding that destroys thousands of acres of wheat but we find that total revenue of all farmers actually increased. This can happen if the price of crops _____ and the demand for crops was price _____ over the relevant range of prices.
- A. increased; elastic
 - B. remained the same; elastic
 - C. increased; inelastic
 - D. decreased; inelastic
 - E. decreased; elastic
- 12 The current market equilibrium price (rent) of a one-bedroom apartment is \$400 per month. If the local government introduces a price **ceiling** of \$300 per month, we can predict that the equilibrium market price will:
- A. decrease to \$300 and there will be a shortage of housing.
 - B. stay at \$400 and the housing market will be in equilibrium.
 - C. stay at \$400 and there will be a shortage of housing.
 - D. decrease to \$300 and there will be a surplus of housing.
 - E. decrease to \$300 and the housing market will be in equilibrium.
- 13 Mark decides to work 3 additional hours in his job rather than watching the football game. If he did not do either one of these activities, he would have read his economics textbook. His hourly wage is \$15. Considering only this information, what is Mark's opportunity cost of working?
- A. The value of the enjoyment he would have received from watching the football game.
 - B. The value of the enjoyment he would have received from reading his economics textbook.
 - C. Zero since he is being paid for his labor.
 - D. \$45 minus the value of the enjoyment he would have received from watching the football game.
 - E. \$45 plus the value of the enjoyment he would have received from reading his economics textbook.

- 14 Consider a country that is operating in its long-run equilibrium that only produces corn and cloth in a perfectly competitive market environment. Considering the current period only, is it feasible to increase the levels of production of both corn and cloth?
- A. No, it is not feasible because the possibilities frontier (or curve) is expected to exhibit increasing cost.
 - B. It would be feasible if the country is currently producing at a point **beyond** its production possibilities frontier (or curve).
 - C. Yes, it is feasible since the country could be operating at a point **inside** its production possibilities frontier (or curve).
 - D. No, it is not feasible since the country is operating at a point **on** its production frontier (or curve).
 - E. It would be feasible if the possibilities frontier (or curve) is exhibiting constant cost.
- 15 Which of the following is consistent with a decrease in the equilibrium price of milk and a decrease in the equilibrium market quantity of milk?
- A. The price of a substitute in consumption has decreased.
 - B. An advertising plan was unsuccessful in increasing people's desire for milk.
 - C. The price of a complement in consumption has decreased.
 - D. There has been an increase in the costs of producing milk.
 - E. None of the above is correct.
- 16 Cold weather increases consumers' desire for hot chocolate. As a result, the equilibrium price of hot chocolate _____ and the equilibrium quantity of hot chocolate _____.
- A. remains the same, increases
 - B. decreases; decreases
 - C. increases; increases
 - D. increases; decreases
 - E. decreases; increases
- 17 Consider a perfectly competitive market for an inferior good. If there is an increase in income we would expect the demand for this good will _____, the equilibrium price will _____, and the equilibrium quantity sold will _____.
- A. decrease; decrease; decrease
 - B. increase; increase; increase
 - C. decrease; decrease; increase
 - D. increase; increase; decrease
 - E. increase; decrease; increase

- 18 A competitive firm, in a perfectly competitive market, produces and sells hats. Last year, it produced and sold 1,000 hats at the equilibrium market price of \$20. It incurred average variable costs of \$10 and earned total economic profits of \$2,000. What were the firm's **total** fixed costs?
- A. \$8
 - B. \$8,000
 - C. \$10
 - D. \$10,000
 - E. Cannot be determined
- 19 If a competitive industry is producing pollution in the production process and the damage that is caused by the pollution not paid for by the industry's firms then we would say that this industry is producing a _____ and the unregulated market is producing a quantity that is _____ the socially efficient quantity.
- A. negative externality; lower than
 - B. positive externality; higher than
 - C. negative externality; higher than
 - D. negative externality; equal to
 - E. positive externality; lower than
- 20 Suppose that the when the price for a movie ticket is \$6 there are 210 million tickets are sold and when the price is \$6.25 there are 208 million tickets sold. Other things equal, the data implies that the absolute value of the price elasticity of demand for movie tickets over this range of prices is _____. Use the midpoint formula to solve this problem and **round to the second decimal point**.
- A. 8.00
 - B. 4.16
 - C. 0.13
 - D. 0.24
 - E. 4.38