

Eco 561 final exam



ECO/561 1) If a firm in a purely competitive industry is confronted with an equilibrium price of \$5, its marginal revenue: A. will be greater than \$5 B. will also be \$5 C. will be less than \$5 D. may be either greater or less than \$5

2) A firm that is motivated by self interest should: A. always use large amounts of cheap inputs and small amounts of expensive inputs in producing its output B. hire each input so the productivity of each is equal at the margin C. always use large amounts of the most productive inputs and small amounts of the least productive inputs in producing its output

D. employ the combination of resources that will produce the profit-maximizing output at the minimum cost 3) If price is above the equilibrium level, competition among sellers to reduce the resulting: A. shortage will increase quantity demanded and decrease quantity supplied B. surplus will increase quantity demanded and decrease quantity supplied C. surplus will decrease quantity demanded and increase quantity supplied D. shortage will decrease quantity demanded and increase quantity supplied 4) Camille's Creations and Julia's Jewels both sell beads in a competitive market.

If at the market price of \$5, both are running out of beads to sell (they can't keep up with the quantity demanded at that price), then we would expect both Camille's and Julia's to: A. lower their price and increase their quantity supplied B. raise their price and reduce their quantity supplied C. lower their price and reduce their quantity supplied D. raise their price and increase their quantity supplied 5) Since their introduction, prices of DVD players have fallen and the quantity purchased has increased. This statement: A. constitutes an exception to the law of supply in that they suggest a downward sloping supply curve B. suggests that the supply of DVD players

has increased C. constitutes an exception to the law of demand in that they suggest an upward sloping demand curve D. suggests that the demand for DVD players has increased 6) In a market economy the distribution of output will be determined primarily by: A. a social consensus as to what distribution of income is most equitable B. consumer needs and preferences C. government regulations that provide a minimum income for all D. the quantities and prices of the resources that households supply 7) In a competitive market economy firms will select the least-cost production technique because:

A. "dollar voting" by consumers mandates such a choice B. such choices will result in the full employment of available resources C. this will prevent new firms from entering the industry D. to do so will maximize the firms' profits 8) Suppose that the price of peanuts falls from \$3 to \$2 per bushel and that, as a result, the total revenue received by peanut farmers changes from \$16 to \$14 billion. Thus: A. no inference can be made as to the elasticity of demand for peanuts B. the demand for peanuts is elastic C. the demand curve for peanuts has shifted to the right D. the demand for peanuts is inelastic 9) If technology dictates that labor and capital must be used in fixed proportions, an increase in the price of capital will cause a firm to use: A. less labor as a consequence of the output effect B. more labor as a consequence of the output effect C. less labor as a consequence of the substitution effect D. more labor as a consequence of the substitution effect 10) In which of the following industries are economies of scale exhausted at relatively low levels of output? A. newspaper printing B. automobile manufacturing C. concrete mixing D. aircraft production 1) If a firm decides to produce no output in the

short run, its costs will be: A. zero B. its fixed plus its variable costs C. its fixed costs D. its marginal costs 12) Which of the following represents a long-run adjustment? A. a supermarket hires four additional clerks B. unable to meet foreign competition, a U. S. watch manufacturer sells one of its branch plants C. a steel manufacturer cuts back on its purchases of coke and iron ore D. a farmer uses an extra dose of fertilizer on his corn crop 13) Paying an above-equilibrium wage rate might reduce unit labor costs by: A. increasing the supply of labor

B. increasing the cost to workers of being fired for shirking C. increasing voluntary worker turnover D. permitting the firm to attract lower-quality labor 14) A firm can hire six workers at a wage rate of \$8 per hour but must pay \$9 per hour to all of its employees to attract a seventh worker. The marginal wage cost of the seventh worker is: A. \$21 B. \$10 C. \$15 D. \$9 15) Price exceeds marginal revenue for the pure monopolist because the: A. demand curve lies below the marginal revenue curve B. demand curve is downsloping C. monopolist produces a smaller output than would a purely competitive firm D. law of diminishing returns is inapplicable 16) Oligopoly is difficult to analyze primarily because: A. neither allocative nor productive efficiency is achieved B. the price and output decisions of any one firm depend on the reactions of its rivals C. output may be either homogenous or differentiated D. the number of firms is too large to make collusion understandable 17) A competitive firm will maximize profits at that output at which: A. the difference between marginal revenue and price is at a maximum B. total revenue and total cost are equal C. price exceeds average total cost by the largest amount

D. total revenue exceeds total cost by the greatest amount

18) Nonprice competition refers to:

- A. reductions in production costs that are not reflected in price reductions
- B. price increases by a firm that are ignored by its rivals
- C. advertising, product promotion, and changes in the real or perceived characteristics of a product
- D. competition between products of different industries, for example, competition between aluminum and steel in the manufacture of automobile parts

19) Advertising can impede economic efficiency when it:

- A. increases consumer awareness of substitute products
- B. enables firms to achieve substantial economies of scale
- C. reduces brand loyalty
- D. increases entry barriers

20) Which of the following is not a possible source of natural monopoly?

- A. rent-seeking behavior
- B. greater use of specialized inputs
- C. simultaneous consumption
- D. large-scale network effects

21) Suppose that an industry is characterized by a few firms and price leadership. We would expect that:

- A. marginal revenue would exceed marginal cost
- B. price would exceed both marginal cost and average total cost
- C. price would equal average total cost
- D. price would equal marginal cost

22) When economists view technological change as internal to the economy, they mean that it:

- A. arises mainly from government subsidies
- B. arises deliberately from the profit motive and competition
- C. occurs accidentally
- D. occurs randomly

23) Firm X develops a new product and gets a head start in its production. Other firms try to produce a similar product but discover they have higher average total costs than the existing firm. This situation illustrates:

- A. spillover costs
- B. learning-by-doing
- C. diminishing marginal returns
- D. diseconomies of scale

4) In the long run a pure monopolist will maximize profits by producing that output at which marginal

cost is equal to: A. average cost B. average variable cost C. marginal revenue D. average total cost 25) If personal taxes were decreased and resource productivity increased simultaneously, the equilibrium: A. price level would necessarily rise B. price level would necessarily fall C. output would fall D. output would rise 26) Suppose that nominal wages fall and productivity rises in a particular economy. Other things equal, the aggregate: A. expenditures curve will shift downward B. supply curve will shift leftward C. supply curve will shift rightward D. demand curve will shift leftward 27) Suppose the price level is fixed, the MPC is .5, and the GDP gap is a negative \$100 billion. To achieve full-employment output (exactly), government should: A. reduce taxes by \$200 billion B. reduce taxes by \$50 billion C. increase government expenditures by \$50 billion. D. increase government expenditures by \$100 billion 28) Expansionary fiscal policy is so named because it: A. is designed to expand real GDP B. involves an expansion of the nation's money supply C. is aimed at achieving greater price stability D. necessarily expands the size of government 29) Stabilizing a nation's price level and the purchasing power of its money can be achieved: A. with neither fiscal nor monetary policy B. only with fiscal policy C. with both fiscal and monetary policy D. only with monetary policy 30) Suppose that US prices rise 4 percent over the next year while prices in Mexico rise 6%. According to the purchasing power parity theory of exchange rates, what should happen to the exchange rate between the dollar and the peso? A. The dollar will be revalued B. The dollar should depreciate C. The peso should depreciate D. The peso should appreciate