IVY TECH STATE COLLEGE
REGION 14–BLOOMINGTON
ECN 101 ECONOMICS FUNDAMENTALS
Fall 2006

MIDTERM_02

Name____________________________

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Marginal product in the short–run: 1) ________
A) increases at all levels of production.
B) diminishes at all levels of production.
C) may initially decrease, then eventually increase.
D) may initially increase, then eventually decrease.

2) Suppose a firm experiences lower average costs whenever output increases in the long–run. Then we would expect the firm to have: 2) ________
A) an L–shaped long–run average cost curve.
B) a U–shaped long–run average cost curve.
C) a minimum efficient scale relatively close to the origin.
D) a long–run average cost curve that always decreases.

3) The marginal cost curve intersects the short–run average total cost curve where: 3) ________
A) average total costs are minimized in the short–run.
B) average variable costs are maximized in the short–run.
C) average variable costs are minimized in the short–run.
D) marginal cost is minimized in the short–run.

4) The short–run average total cost curve is U–shaped because average fixed costs ________ and average variable costs ________ eventually as quantity produced increases. 4) ________
A) decrease, increase
B) increase, increase
C) decrease, decrease
D) increase, decrease

5) In the short–run, ________ factors of production are fixed, while in the long–run, ________ of them are. 5) ________
A) all, none
B) all, at least some
C) no, at least some
D) some, none

6) Diminishing marginal returns imply that firms: 6) ________
A) get decreasing amounts of revenue for each unit of output they produce.
B) require more and more workers to produce each additional unit of output.
C) require fewer and fewer workers to produce each additional unit of output.
D) get increasing amounts of revenue for each unit of output they produce.

7) Under which conditions might diseconomies of scale result? 7) ________
A) decreasing costs of inputs
B) the firm uses a large amount of indivisible inputs
C) increasing output prices
D) hampered coordination brought about by bureaucracy

8) The minimum efficient scale is: 8) ________
A) the quantity after which it makes no sense for a firm to produce.
B) the output level beyond which the firm will experience scale economies.
C) the output level beyond which the firm will not experience scale economies.
D) the minimum quantity where a firm would be able to produce profitably.

9) You are a student at a university. You pay $8,000 per year in tuition, $5,000 per year in living expenses, and $1,000 per year for books. Were you not in school, you could earn $15,000 per year and you would not live with your parents. What is your economic cost of a year in college? 9) ________
A) $24,000 B) $29,000 C) $9,000 D) $15,000

Number of workers	Units of output
0	0
1	10
2	30
3	44
4	55
5	60
6	60
7	55

Table 4.1

10) Refer to Table 4.1, which gives a firm's production function. Assume that all non-labor inputs are fixed. Diminishing marginal returns set in with the addition of the: 10) ________
A) fifth worker. B) fourth worker. C) third worker. D) sixth worker.

11) One difference between the short-run and the long-run is that: 11) ________
A) firms can earn positive, negative or zero economic profit in the short-run, but will earn zero economic profit in the long-run.
B) firms earn zero economic profit in the short-run, but will earn positive economic profit in the long-run.
C) firms always earn more economic profit in the long-run.
D) firms always earn positive economic profit in the short-run, but never in the long-run.

12) A firm will not shut down in the short-run as long as at the point where MR=MC: 12) ________
A) P>AFC. B) P>AVC. C) P>MC. D) P>ATC.

13) Which of the following is NOT a characteristic of a perfectly competitive market? 13) ________
A) selling a standardized product
B) a large number of firms in a market
C) an individual firm has no control over price
D) firms cannot freely enter or exit the market in the long run

14) Suppose a perfectly competitive firm charges a price that is equal to average total cost: 14) ________
A) the firm is earning an economic profit greater than zero.
B) the firm is earning an economic profit equal to zero.
C) the firm is earning an economic profit less than zero.
D) it is not possible to determine anything about profits.

15) Which of the following is the best example of a perfectly competitive firm? 15) _______

A) Jones's wheat farm in eastern Washington
B) DeBeers Diamond Company
C) Tino's Italian Eatery, a local restaurant
D) your local cable T.V. company

16) In the short–run, the firm's shut down price is where: 16) _______

A) price is equal to the minimum of the marginal cost of production.
B) price is equal to the minimum of the average variable cost of production.
C) price is equal to the average total cost of production.
D) price is equal to the minimum of the average total cost of production.

17) A firm's marginal cost curve above the average variable cost curve is also: 17) _______

A) the firm's short–run supply curve.
B) the firm's producer surplus curve.
C) the market supply curve.
D) the firm's demand for production curve.

18) Long–run equilibrium for a perfectly competitive industry occurs when: 18) _______

A) P>MC=ATC.
B) P=MC=AFC.
C) P=MC=ATC.
D) P=MC=AVC.

19) A natural monopoly occurs when: 19) _______

A) price is greater than average cost when a single firm produces the product but would be less than average cost if a second firm entered the market.
B) the government approves a firm to be the only official producer of a good or service.
C) a single firm has the only license to operate.
D) a firm controls all of the natural resources necessary to produce a product.

Use the figure below to answer the following questions.

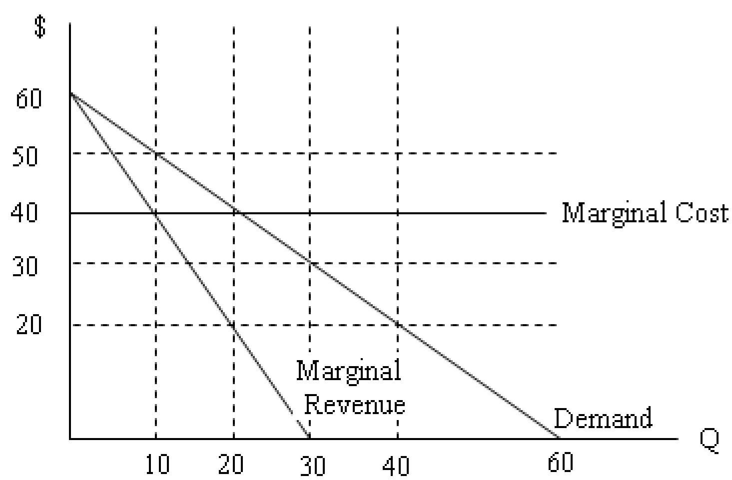

Figure 6.2

20) Consider an industry with a demand curve and marginal cost as illustrated in Figure 6.2. A profit–maximizing monopolist would produce a quantity of ________ units. 20) _______

A) 28
B) 10
C) 15
D) 20

21) The term "rent seeking" best describes a situation in which: 21) _______
A) consumers compete for a limited quantity of the good.
B) firms use resources to secure or preserve a monopoly in providing a good or service.
C) individuals expend effort searching for a good price on an apartment.
D) None of the above are good descriptions of rent–seeking behavior.

22) A natural monopoly occurs when: 22) _______
A) price exceeds average cost when a single firm is in the market, but is less than average cost when more than one firm is in the market.
B) the government grants a firm a patent on a product.
C) a single firm controls the entire quantity of a natural resource.
D) the government designates a single firm to sell a particular good.

23) How do monopoly prices and quantities produced differ from perfectly competitive outcomes? 23) _______
A) Monopoly prices are higher than competitive prices but monopoly quantities are lower than competitive quantities.
B) Monopoly prices and quantities are both lower than competitive outcomes.
C) Monopoly prices are lower than competitive prices but monopoly quantities are higher than competitive quantities.
D) Monopoly prices and quantities are both higher than competitive outcomes.

24) As an avid Harry Potter fan, you are prepared to pay $45 for the latest installment in the series. You are pleasantly surprised to see it on sale at your local bookstore for $29.99. The difference between $45 and $29.99 is an example of: 24) _______
A) marginal pricing.
B) black market tactics.
C) consumer surplus.
D) promotional pricing.

Use the figure below to answer the following questions.

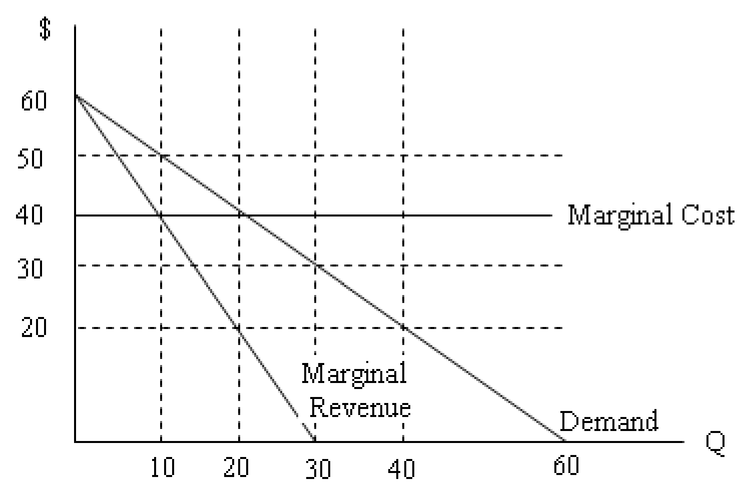

Figure 6.2

25) Consider an industry with a demand curve and marginal cost as illustrated in Figure 6.2. Calculate consumer surplus in a competitive market. 25) _______
A) $560
B) $200
C) $60
D) $150

26) Which of the following best characterizes the tradeoff faced by a monopolist when deciding a quantity to produce? 26) _______

A) The firm gets more revenue from new customers by increasing output, but gets less revenue from existing customers given that it lowered its price.
B) The firm gets less revenue from new customers by increasing output, but gets more revenue from existing customers given that it lowered its price.
C) The firm can increase its output, but needs to lower its price for only the marginal unit of output.
D) The firm can increase its output, but to do so it must charge a higher price to all customers.

27) If a regulatory agency mandates that a natural monopoly charge a price equal to its average cost: 27) _______

A) other firms will find it profitable to enter this industry.
B) the firm will earn economic profits greater than zero.
C) the firm will earn economic profits equal to zero.
D) the firm will eventually exit the industry.

28) The demand curve that a monopolist faces is: 28) _______

A) generally flatter than the demand curve that faces a perfectly competitive firm.
B) the same as the demand curve that faces a perfectly competitive firm.
C) not affected by changes in the prices of other goods.
D) the market demand curve.

Use the figure below to answer the following questions.

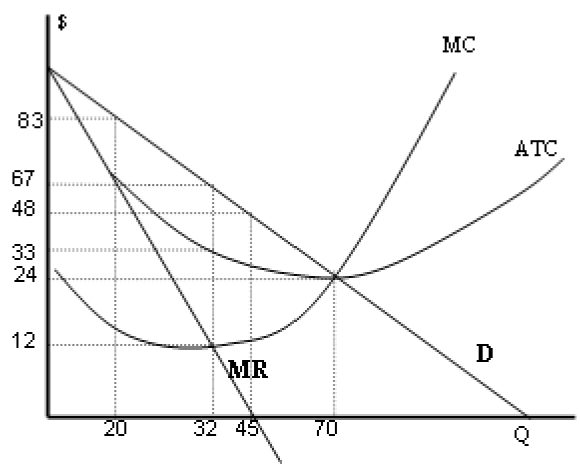

Figure 6.1

29) How much would the profit be of the monopoly seen in Figure 6.1 if it maximizes profit? 29) _______

A) $12 B) $24 C) $67 D) $48

30) The profit maximizing output level for the monopoly seen in Figure 6.1 is: 30) _______

A) 20 units. B) 32 units. C) 70 units. D) 45 units.

31) The profit maximizing price for the monopoly seen in Figure 6.1 is: 31) _______

A) $83. B) $67. C) $48. D) $24.

32) Which of the following is an example of a barrier to entry? 32) ________

A) The government grants licenses to taxicab drivers, without which it is illegal to operate a taxicab.
B) A firm is open for business only at certain hours of the day, and has its doors locked at other times.
C) The need to take risk when starting a new business.
D) A newspaper sells advertising space to businesses.

33) When a second firm enters a monopolist's market: 33) ________

A) market price will drop.
B) the first firm's average cost will increase.
C) the quantity produced by the first firm will decrease.
D) All of the above will occur.

34) Firms acting strategically is a characteristic of: 34) ________

A) a perfectly competitive industry.
B) a natural monopoly market.
C) a monopoly market.
D) an oligopoly market.

35) A group of firms that coordinate their pricing decisions is a(n): 35) ________

A) cartel.
B) natural monopoly.
C) industry.
D) coalition.

36) Which one of the following is the best example of an oligopolistic industry? 36) ________

A) cigarettes
B) apple growers
C) wheat growers
D) public utilities

37) Which of the following is <u>not</u> a characteristic of a monopolistically competitive market? 37) ________

A) Firms hold patents on their products.
B) The products that firms sell are slightly different.
C) There are no artificial barriers to entry.
D) Firms have some control over price.

38) The four-firm concentration ratio measures the: 38) ________

A) the elasticity of demand of the four largest firms in an industry.
B) number of firms in an industry.
C) percentage of market output produced by the four largest firms.
D) the average cost of the four largest firms in an industry.

39) The word "monopolistic" in the label "monopolistic competition" refers to the fact that: 39) ________

A) there is only one firm producing in the market.
B) each firm produces a unique version of the product.
C) firms have no control over the price they charge.
D) none of the above

40) Price fixing is an arrangement whereby firms agree to: 40) ________

A) set price equal to marginal cost.
B) not change price even if market conditions dictate a change.
C) set price equal to average total cost.
D) coordinate their pricing decisions.

41) In short–run equilibrium for a monopolistically competitive firm: 41) ________
A) price may be greater than average cost.
B) marginal revenue is greater than marginal cost.
C) the demand curve is horizontal.
D) marginal revenue is negative.

42) Cartels engage in price fixing in order to: 42) ________
A) drive out competition.
B) increase profits.
C) promote entry.
D) retain customers.

43) Which of the following is an example of a monopolistically competitive firm? 43) ________
A) Tino's Italian eatery, a local restaurant
B) Farmer Smith's corn farm
C) TCI Cablevision, a supplier of cable television services
D) Northwest Electricity, a supplier of electricity in the Northwest U.S.

44) Firms in a cartel usually charge: 44) ________
A) different prices to reflect their different costs.
B) higher prices than a monopoly would.
C) lower prices than a monopoly would.
D) the same price.

45) When firms compete with each other rather than cooperate: 45) ________
A) output will be lower.
B) the firms will end up better off.
C) prices will be higher.
D) consumers will end up better off.

46) In the mid 1990s Coke introduced a new soda in the soft drink market. Coke then used a new advertising campaign to associate the new soda with youth and strength. Coke was trying to: 46) ________
A) maximize their per unit costs through advertising.
B) lower the market price of soft drinks.
C) shift the demand curve for competing soft drinks to the left.
D) create a perfectly competitive market for soft drinks.

47) Suppose you operate in a monopolistically competitive market. If you sell your good at a price of $20 and your average cost of production is $15: 47) ________
A) your market may be in long–run equilibrium.
B) you should expect competing firms to enter your market and shift the demand curve for your good to the left.
C) you cannot be in short–run equilibrium.
D) you should expect competing firms to enter your market and shift the demand curve for your good to the right.

48) In Washington, D.C. there are many, many coffee shops, each offering nearly identical coffee but each shop located in a different place around the city. It is likely a coffee shop in Washington, D.C. operates in a: 48) ________
A) perfectly competitive market.
B) oligopoly market.
C) monopoly market.
D) monopolistically competitive market.

Use the figure below to answer the following questions.

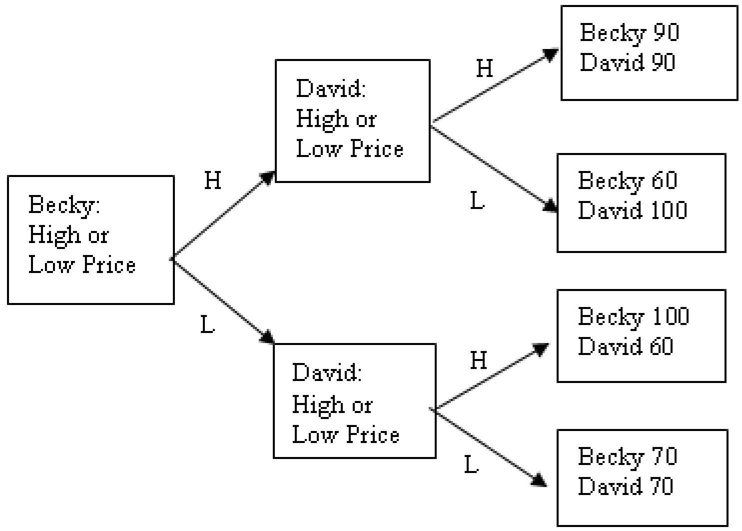

Figure 7.3

49) Consider Figure 7.3. David chooses to charge a low price: 49) _______

A) in order to induce Becky to choose a high price.
B) only if Becky chooses a high price.
C) regardless of whether Becky chooses a high or low price.
D) only if Becky chooses a low price.

50) Which of the following statements is true? 50) _______

A) Cartels and price fixing arrangements always result in lower prices.
B) Price fixing is legal in the United States.
C) Cartels are legal in the United States.
D) None of the above is true.

1) D
2) D
3) A
4) A
5) D
6) B
7) D
8) C
9) A
10) C
11) A
12) B
13) D
14) B
15) A
16) B
17) A
18) C
19) A
20) B
21) B
22) A
23) A
24) C
25) B
26) A
27) C
28) D
29) C
30) B
31) B
32) A
33) D
34) D
35) A
36) A
37) A
38) C
39) B
40) D
41) A
42) B
43) A
44) D
45) D
46) C
47) B
48) D
49) C
50) D