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ECO 2023: Principles of Microeconomics, Exam two

Multiple Choice: Choose the one alternative that best completes the statement or answers the question.

1. Education is an example of a

- A) public good.
- B) positive externality.
- C) private cost.
- D) negative externality.

2. Which of the following activities create a negative externality?

- A) cleaning up the sidewalk on your block
- B) graduating from college
- C) repainting the house you live in to improve its appearance
- D) keeping a junked car parked on your front lawn

3. A positive externality results when

- A) economists are sure that a good or service provides benefits to consumers.
- B) someone pays for a good or service even though she is not directly affected by the production or consumption of it.
- C) people who live in one country benefit from the production of a good or service that occurs in another country.
- D) people who are not directly involved in producing or paying for a good or service benefit from it.

4. Which of the following represents the true economic cost of production when firms produce goods that cause negative externalities?

- A) the private cost of production
- B) the social cost of production
- C) the external cost of production
- D) the explicit cost of production

5. A market supply curve reflects the

- A) external costs of producing a good or service.
- B) external benefits of producing a good or service.
- C) social costs of producing a good or service.
- D) private costs of producing a good or service.

6. Suppose the value of the price elasticity of demand is -4. What does this mean?

- A) A 1 percent increase in the price of the good causes quantity demanded to increase by 4 percent.
- B) A 1 percent increase in the price of the good causes quantity demanded to decrease by 4 percent.
- C) A 4 percent increase in the price of the good causes quantity demanded to decrease by 1 percent.
- D) A \$1 increase in price causes quantity demanded to fall by 4 units.

7. If demand is relatively inelastic, the absolute value of the price elasticity of demand is

- A) one.
- B) less than one.
- C) greater than one.
- D) greater than the absolute value of the slope of the demand curve.

8. Perfectly elastic demand is represented by a demand curve which is _____.
- A) downward sloping **B) horizontal**
C) vertical D) upward sloping
9. Perfectly inelastic demand is represented by a demand curve which is _____.
- A) downward sloping B) horizontal
C) vertical D) upward sloping
10. If a firm decreased its price and discovered that its total revenue fell, then the demand for its product is
- A) perfectly inelastic. **B) relatively inelastic.**
C) perfectly elastic. D) relatively elastic.
11. An item has utility for a consumer if it
- A) is scarce. B) has a high price.
C) is something everyone else wants. **D) generates enjoyment or satisfaction.**
12. Suppose your marginal utility from consuming the 3rd slice of pizza is zero, then your total utility from consuming pizza is
- A) maximized.** B) decreasing.
C) negative. D) increasing
13. If a consumer always buys goods rationally, then
- A) the total utilities of the different goods consumed will be equal.
B) the average utilities of the different goods consumed will be equal.
C) the marginal utility per dollar spent on all goods will be equal.
D) the marginal utility of the different goods consumed will be equal.
14. When the price of TV, a normal good, falls, causing your purchasing power to rise, you buy more of them due to
- A) the substitution effect. **B) the income effect.**
C) the deadweight loss effect. D) the elasticity effect.
15. When the price of summer tank tops falls and you buy more of them because they are relatively less expensive, this is called
- A) the substitution effect.** B) the income effect.
C) the deadweight loss effect. D) the elasticity effect.
16. To improve package delivery, one change UPS made involved taking better account of weather forecasts to avoid delays in flying packages. This is an example of
- A) positive technological change.** B) increasing marginal returns.
C) a reduction in fixed costs. D) diseconomies of scale.
17. The long run refers to a time period
- A) during which a firm is able to purchase all of its inputs, including its plant and equipment.
B) long enough for a firm to vary all of its inputs, to adopt new technology, and change the size of its physical plant.
C) long enough for a firm to pay all of its creditors in full.

D) long enough for a firm to change the use of its variable input.

18. Which of the following statements best describes the economic short run?

A) It is a period of one year or less.

B) It is a period during which firms are free to vary all of their inputs.

C) It is a period during which at least one of the firm's inputs is fixed.

D) It is a period during which fixed inputs become variable inputs because of depreciation.

19. If a consumer receives 20 units of utility from consuming two candy bars, and 25 units of utility from consuming three candy bars, the marginal utility of the third candy bar is

A) 25 utility units.

B) 20 utility units.

C) 5 utility units.

D) unknown as more information is needed to determine the answer.

20. As a firm hires more labor in the short run, the

A) level of total product stays constant.

B) output per worker rises.

C) extra output of another worker may rise at first, but eventually must fall.

D) costs of production are increasing at a fixed rate per unit of output.

21. Which of the following costs will *not* change as output changes?

A) marginal cost

B) total variable cost

C) average fixed cost

D) total fixed cost

22. Average fixed costs of production

A) remain constant.

B) will rise at a fixed rate as more is produced.

C) graph as a U-shaped curve.

D) fall as long as output is increased.

23. Vipsana's Gyros House sells gyros. The cost of ingredients (pita, meat, spices, etc.) to make a gyro is \$2.00. Vipsana pays her employees \$60 per day. She also incurs a fixed cost of \$120 per day. Calculate Vipsana's variable cost per day when she produces 50 gyros using two workers?

A) \$100

B) \$124.40

C) \$220

D) \$240

24. When the output level is 100 units, given that the average total cost is \$20, the average variable cost is \$12. What is the average fixed cost is

A) \$10.

B) \$8.

C) \$5.

D) This cannot be determined from the diagram.

25. When output level is 100 units, the average total cost is \$20. What is the total cost of production?

A) \$20

B) \$1,000

C) \$1,200

D) \$2,000

26. If, when a firm doubles all its inputs, its average cost of production decreases, then production displays

A) diminishing returns.

B) economies of scale.

C) diseconomies of scale.

D) declining fixed costs

27. Which of the following is a reason why firms experience diseconomies of scale?

- A) Technology can make it possible to increase production with a smaller increase in at least one input.
- B) Workers and managers can become more specialized, enabling them to be more productive.
- C) Larger firms may be able to purchase inputs at lower costs than smaller competitors.
- D) As output increases, the managers can begin to have difficulty coordinating the operations of their firms.

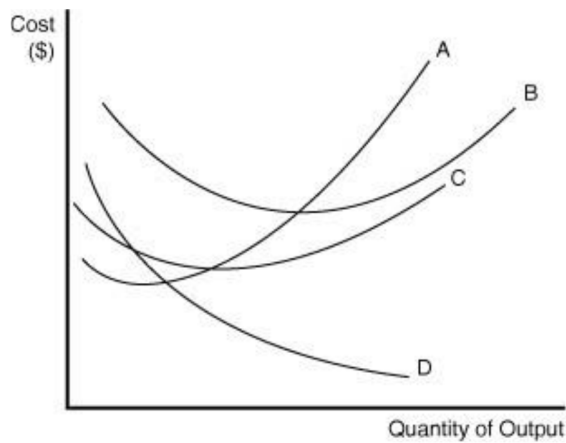


Figure 1 contains information about the short run cost structure of a firm.

28. Refer to Figure 1, which letter represents the average total cost curve?

- A) A
- B) B
- C) C
- D) D

29. Refer to Figure 1, which letter represents the average variable cost curve?

- A) A
- B) B
- C) C
- D) D

30. Refer to Figure 1, which letter represents the marginal cost curve?

- A) A
- B) B
- C) C
- D) D